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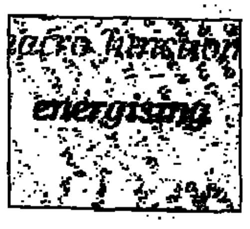

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Today's surveys
World Pulp and Paper; Hungary; Spain's Ebro Valley.

WORLD NEWS

UK government to set up $41m fund for victims of Nazis

Britain is to set up a £25m ($41.25m) fund to compensate Nazi victims for assets confiscated by Britain during the second world war – a move that will put pressure on other countries such as the US and Switzerland to follow suit. The UK plans include an independent panel to consider claims. **Page 9; Editorial Comment, Page 17**

Schröder tackles jobs issue
German chancellor Gerhard Schröder will hold his first "alliance for jobs" meeting as he tries to rebuild consensus on employment creation measures. **International news, Page 2**

Euro rate will be watched
The European Central Bank would not welcome an overvalued euro exchange rate that could damage the competitiveness of the 11 countries in the single currency zone, says ECB chief Wim Duisenberg. **International news, Page 3; Comment and Analysis, Page 17**

CentAm reconstruction launch
The presidents of Honduras, Nicaragua, El Salvador, Guatemala and Costa Rica will launch a conference in Washington on Thursday to start rebuilding after Hurricane Mitch. **International news, Page 4**

Impeachment comes closer
Republican Senate majority leader Trent Lott said the upper house would start the groundwork for a trial of US President Bill Clinton as legislators said an impeachment vote in the House of Representatives would be very close. **Page 18; Trapped by a vacuum, Page 16**

China cuts interest rates
China cut its interest rates yesterday for the third time in 14 months in a move aimed at boosting consumer spending and helping ailing state-run industries. **International news, Page 8**

Early Lockerbie trial unlikely
Libya resisted pressure to hand over for trial two men accused of masterminding the bombing of a Pan Am flight over Lockerbie in Scotland in 1988, by referring the decision to parliament. **International news, Page 6**

Texaco explores Saudi link
Texaco chief Peter Bijur put forward ideas for developing Saudi Arabian energy resources when he met Crown Prince Abdullah. In September, the prince invited US oil companies' suggestions.

Inflation falls in Greece
Greek headline inflation fell from 4.7 per cent to 4.2 per cent in November, boosting the chances that inflation next year will fall to levels consistent with joining the European single currency. **International news, Page 2**

Police round up hunger strikers
Turkish police rounded up some 200 members of a pro-Kurdish party who began a hunger strike to protest against a police crackdown on their party, the People's Democracy party.

Tobacco case back in court
The test case brought by 53 UK lung cancer victims against Imperial Tobacco and Gallaher returns to court today for a hearing which could stop the case going to trial. **UK news, Page 9**

Khatami backers set up party
A new political party called the Islamic Iran Participation Front has been set up by political and cultural figures who support Iran's moderate president Mohammad Khatami. **International news, Page 6**

BUSINESS NEWS

UBS puts global trade finance division on market

UBS, the Swiss banking group, has put its global trade finance division up for sale. The operation, which has a loan book of $5.5bn and 600 employees, is one of the biggest participants in a business that has been hit by economic turmoil in Asia and eastern Europe. **Page 19**

Scottish Power of the UK and PacifiCorp of the US are close to agreeing merger terms to create one of the world's biggest multi-utilities with a market capitalisation of about £12bn ($19.8bn). Scottish Power plans to issue US shares, in the form of American Depository Receipts worth up to $8bn, to buy PacifiCorp. **Page 20; Lex, Page 18**

Specialist brokers have been approached by a number of European companies, from Scandinavian hydro-electric utilities to UK soft drinks manufacturers, about hedging against weather conditions. **Page 24**

Reuters, the financial data group, intends to cut costs in its financial information arm as part of an effort to raise productivity and margins. **Page 19**

Deutsche Telekom, Europe's biggest telecommunications group, said cuts in telephone charges would reduce revenues by up to DM6bn ($3.5bn) but could be compensated by higher volumes. **Page 21**

Komatsu, the Japanese machinery maker, plans to sell back-hoe loaders in the US. The group recently reported its first interim loss due to the fall in its Asian markets. **Page 19**

Seagram, the Canadian drinks and entertainment group, has secured shareholder approval to conclude its $10.95bn bid for PolyGram, the world's largest music company. **Page 19**

Sprint of the US and National Grid, the UK electricity group, are considering spending more than $1bn to develop a new national telecommunications network in Brazil. **Page 20**

Two Indonesian companies hope to get permission for the country's first debt-for-equity swaps, following regulatory changes designed to speed the restructuring of $80bn in private foreign loans and billions more in domestic debt. **Page 8**

Italy's privatised stock exchange is set to complete the first step of its European alliance by linking with Paris and Madrid in the fixed-income futures derivatives market. **Page 22**

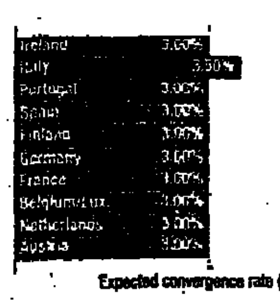
Mercury Asset Management, the UK's largest pension fund manager, is to launch four euro-focused funds to benefit from European economic and monetary union. **Page 24**

Autogrill, the acquisitive Italian motorway and fast-food company controlled by the Benetton clothing group, is set to take over the concession to operate restaurants in France's main railway stations. **Page 24**

Sol Meliá and Meliá Inversiones Americanas, the hotel companies controlled by the Escarrer family, will resume trading on the Spanish stock exchange today after a two-week suspension. **Page 24**

Japanese sales of mini-vehicles recorded their second consecutive double-digit sales increase last month, giving the car industry a welcome boost as demand for larger cars and trucks continued to collapse. **Page 24**

EURO INTEREST RATE CONVERGENCE



The convergence of interest rates in the 11 countries that will participate in the European single currency was all but completed last week. With the exception of Italy, the euro-zone members now have short-term interest rates at 3 per cent. That level will be the starting rate for the European Central Bank when it takes over at the beginning of 1999.

Euro-zone, Page 31

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

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Airbus restructure hits turbulence

BAe/Dasa furious as Aerospatiale demands 50% stake

By David Owen in Paris, Alexander Nicoll in London and Graham Bowley in Frankfurt

Efforts to restructure Airbus Industrie, the European civil aircraft consortium, have been thrown into confusion by a squabble between its main shareholders.

The argument, pitching Aerospatiale of France against British Aerospace (BAe) of the UK and DaimlerChrysler Aerospace (Dasa) of Germany, erupted at an Airbus shareholders' meeting in the French city of Toulouse.

Dasa said the French company had demanded an increased stake of 50 per cent in a restructured Airbus and accused it of taking Airbus "hostage". At the meeting, Aerospatiale refused to exchange valuations with its partners in what would be an important step towards turning the consortium into a single company and, hence, improving its efficiency.

At the heart of the row are French concerns about the consequences for the balance of power within Airbus of a widely expected alliance between Aerospatiale's British and German partners in the consortium.

Announcement of a BAe/Dasa merger is widely assumed in France to be imminent. However, people close to the Anglo-German discussions cautioned yesterday that there were a number of hurdles to overcome before terms could be agreed, including issues of management, taxation and shareholder structure.

BAe and Dasa profess to want a trilateral merger including Aerospatiale in what would be a sweeping rationalisation of Europe's aerospace and defence industry. But the British and German companies will not accept any significant stake being held by the French government, which is partially privatising Aerospatiale.

The French government recently signalled it accepted it could do nothing to prevent BAe and Dasa from merging without including Aerospatiale. However, French officials indicated they would seek to guarantee the "strategic position" of Aerospatiale within Airbus.

Based on current stakes, a BAe/Dasa merger would leave the combined entity owning 57.9 per cent of Airbus, compared with 37.9 per cent for Aerospatiale and 4.2 per cent for Casa of Spain.

Dasa said the French had demanded a 50 per cent equity stake in the new Airbus company. It said partners had reacted by offering them 50 per cent voting rights. This was said to be unacceptable to the French.

"France has taken Airbus hostage – they do not want any other European restructuring to take place without them," Dasa said. The first public indication of the row was a terse Aerospatiale statement referring to "insistent rumours" of a merger between two Airbus partners and saying the French company had asked for clarification of Airbus's "conditions of evolution".

Aerospatiale denied taking Airbus hostage and indicated that past efforts to exchange valuations had been rebuffed.

BAe said Aerospatiale had stopped the meeting, saying it would not take part in further discussions on converting Airbus into a single corporate entity until issues surrounding the Airbus voting structure had been re-examined.

Comment, Page 20

Hugo Chavez, populist candidate for the presidency of Venezuela, waving to supporters in Caracas yesterday. Voters turned out in numbers and election officials reported 'no significant irregularities' by early afternoon   Report, Page 2

US urges Nato to take on wider role

By David Buchan, Diplomatic Editor

The US is urging Nato to take on new tasks, such as stemming the spread of weapons of mass destruction, as part of a broadening of the alliance's scope that will be resisted by some European allies.

In an article in today's Financial Times, Madeleine Albright, the US secretary of state, says that while Nato would remain committed to collective defence of its members' territory, it should also be "capable of meeting a wide range of threats to common alliance interests".

Writing before tomorrow's Nato meeting of foreign ministers, who will prepare a "strategic concept" to be adopted at the alliance's 50th anniversary summit in Washington in April, Mrs Albright says the threat of weapons of mass destruction is a challenge for Nato. "We must improve overall alliance efforts both to stem proliferation and to deter, prevent and protect against such attacks."

The US sent its Nato allies a classified paper on nuclear, chemical and biological weapons suggesting they take protective measures including building anti-missile defences. "Some European allies are wary of the US non-proliferation policy because it increasingly favours military solutions, such as last summer's missile attack on a Sudanese factory allegedly making chemical weapons, rather than the traditional diplomatic or legal approach," a French official said.

The US administration wants bold initiatives from the Washington summit "which will chart Nato's future", giving it new justification when "Europe is more secure than at any time in living memory", Mrs Albright writes.

Poland, Hungary and the Czech Republic will join the 16-member Atlantic alliance in time for the Washington summit. Mrs Albright insists "the first new members will not be the last".

Against the background of Friday's Anglo-French decision to give the European Union a defence role, Mrs Albright said the US wanted a Europe "capable of putting out fires in Europe's backyard". She cited the French-led force Nato approved for deployment in Macedonia to protect international observers in Kosovo as an example.

But she cautions that the EU should not take defence decisions separately from Nato, duplicate military and defence industrial arrangements reached in Nato or discriminate against Nato members not belonging to the EU. Behind her warnings is American sensitivity about the Europeans establishing a caucus inside Nato. This may be reinforced by recent Anglo-French co-operation moves.

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KMT victorious in Taiwan polls

By James Harding in Taipei

The Kuomintang, Taiwan's ruling Nationalist party, swept to victory in elections over the weekend in a vote endorsing the party's shift to championing a distinct Taiwanese identity separate from mainland China.

The success of the KMT, which increased its majority in the legislature and recaptured the Taipei mayor's office, is also a measure of general satisfaction at the government's handling of what until recently has been one of Asia's better performing economies.

The KMT's Ma Ying-jeou won 51 per cent of the vote to win what has been a neck-and-neck race to become Taipei's mayor. He ousted incumbent Chen Shui-bian, the Democratic Progressive party's candidate, who has advocated full independence.

As political attention started to turn yesterday towards Taiwan's presidential elections in early 2000, the results marked an important revival in public support for the KMT. The party has moved to the middle ground of Taiwanese politics and put aside past divisions to rally round the clean image of Mr Ma.

The defeat of Mr Chen, who has been tipped as a potential DPP presidential candidate, was a setback for the main opposition party.

The Chinese leadership in Beijing, which has high hopes of reunification with the island it has regarded as a renegade province since the nationalists fled there when the communists took over the mainland in 1949, is likely to be relieved at the defeat of the pro-independence Mr Chen.

However, the win by mainland-born Mr Ma, who has sought to appeal to people of all origins by styling himself as a "new Taiwanese person", has underlined the popular appeal of a Taiwanese identity distinctly separate from the mainland.

The gap between the DPP and the KMT over the relationship with China has narrowed in recent years around a consensus in favour of the "status quo" – Taiwan's de facto independence.

Wu Hsin-hsing, deputy secretary-general of the Straits Exchange Foundation in Taipei, which handles the cross-straits relationship, said yesterday that one of the conclusions of these elections was that "we have reached a bipartisan approach on China policy. Both parties agree that when it comes to dealing with China, Taiwan comes first."

The pro-reunification New party won just 3 per cent of the vote in the Taipei mayor's race. Separately, in an unprecedented plebiscite in the small constituency of Tainan, 77 per cent of voters said they did not want to be ruled by communist China.

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WORLD NEWS

Schröder begins search for jobs consensus

By Ralph Atkins in Bonn

Gerhard Schröder, Germany's chancellor, will today begin efforts to bridge the conflicting positions of unions, employers and government in order to rebuild a national consensus around employment creation measures.

The first meeting of Mr Schröder's "alliance for jobs" – the central plank of the Social Democrat-led government's programme – is an attempt to mimic the success of similar national initiatives in other European countries, including the Netherlands. Germany has about 4m unemployed.

However, its start has been marred by clear differences between its main participants. It also follows the collapse in 1996 of a similar initiative under the government of the former chancellor, Helmut Kohl. Then, attempts at reaching a consensus turned into conflict with unions protesting angrily at government plans to curb generous sick pay provision and ease rules protecting workers against dismissal.

Gerhard Schröder: seeks employment creation measures

SPD strategists believe Mr Kohl's failure to take a consensus approach undermined his popularity with voters, leading to his defeat in the general election in September.

Bodo Hombach, the cabinet minister who acts as Mr Schröder's chief of staff, says: "The main idea is that we should see consensus re-institutionalised."

Mr Schröder wants his "alliance for jobs" to last the four-year legislative period, with meetings every two months.

Those attending today include leaders of unions and employers associations as well as Mr Schröder, Oskar Lafontaine, finance minister, Werner Müller, economics minister, Walter Riester, employment minister, and Andrea Fischer, the Green health minister.

But the omens ahead of today's meeting in the Bonn chancellery are not promising. Dieter Hundt, president of the federal employers' association (BDA), has set among his main priorities a wide-ranging reconsideration of the government's tax plans which the BDA argues will result in an additional net burden of DM35bn ($21bn) a year for industry.

The government argues, in its defence, that the tax reforms will bring significant gains to working families.

Mr Hundt also wants an agreement by unions on employment-oriented wage settlements – which unions are refusing to discuss directly – and reform of Germany's welfare state.

Meanwhile, employers' organisations have voiced scepticism about the ideas floated by Mr Riester, a former trade union leader, which would allow early retirement at 60 without loss of pension entitlements. Mr Riester argues shortfalls in pensions could be financed out of funds built up out of a share of annual wage increases.

The idea is that retiring workers would make way for new recruits.

Business organisations, including the BDA, have questioned the schemes' cost and whether employers would take on significant numbers of new workers as a result.

Mr Riester is also looking for employer and union help in finding training places for the young unemployed.

On the union side, Dieter Schulte, head of the German trade union federation (DGB), is pushing for cuts in overtime or a reduction in maximum working hours. IG Metall, Germany's biggest union, is meanwhile pushing for an increase of 6.5 per cent in 1999 wage negotiations starting today and affecting 3.4m workers in the metal and electrical industries.

The differences have reduced any expectations of a significant breakthrough, at least in the early stages of the "alliance for jobs" talks.

In their last report on Germany's economy, the country's six leading economic institutions warned against building false expectations and questioned whether the success of schemes in smaller economies such as the Netherlands or Denmark could be replicated in Germany. But they suggested an "alliance for jobs" could be "useful", for instance in improving labour market flexibility.

The next "alliance for jobs" meeting is scheduled for February.

Hopes for S Africa trade deal with EU

By Neil Buckley in Brussels

The European Union's development commissioner will today urge EU ministers to back a final compromise offer for a free trade agreement with South Africa, in an attempt to conclude three-year-old talks before the end of the year.

João de Deus Pinheiro, who is heading the talks on behalf of the EU and met South Africa's trade minister Alec Erwin in Pretoria last week, will warn that missing the year-end deadline could threaten the deal's future.

South Africa enters a pre-election period in the new year which could further delay progress. Officials at the European Commission also fear failure to send a clear message to South Africa could create an impression in Pretoria that by prolonging talks it could extract more concessions.

Overshooting the "autumn" deadline set by the EU's Cardiff summit in June for accord with South Africa would be a political embarrassment for the EU.

"Mr Pinheiro will be able to give ministers the outline of the final package as the Commission sees it," said one Commission source. "He will emphasise that a sense of urgency has to be established. There has to be realism on both sides that the timetable is tight."

Mr Pinheiro and Mr Erwin said after their talks last week they had gone as far as they could within their negotiating mandates.

Both would now have to consult their political masters.

Broad agreement exists on a deal which would open 95 per cent of the EU market to South African exports over 10 years, and about 86 per cent of the South African market to EU goods.

But there is still disagreement over South Africa's use of the names port and sherry for fortified wines. The EU wants South Africa to agree to phase out use of the terms within its domestic market – as it has agreed to do for the export market – over about 13 years, but Pretoria rejects this as unacceptable.

One idea understood to be being discussed by EU states to persuade South Africa to accept a phase-out is for the EU to pay compensation to South African producers.

But Mr Pinheiro may face strong opposition from Spain and Portugal, which claim the rights to the port and sherry names, to any deal which does not contain South African commitments on the issue.

Brussels is also unhappy with South Africa's offer on the speed of opening of its textiles and car markets.

Greek inflation declines sharply to 4.2%

By Kerin Hope in Athens

A sharp fall in headline inflation to 4.2 per cent in November has boosted Greece's chances of reducing inflation next year to levels consistent with joining the European single currency, economy ministry officials said yesterday.

The rate slowed from 4.7 per cent in October as a result of tax cuts on fuel and new vehicles, and an agreement by Greek manufacturers, wholesalers and supermarket chains to restrict price increases on food and fast-moving consumer goods over the next 12 months.

The unprecedented "gentlemen's agreement" between the trade ministry and suppliers covers several hundred categories of goods which have an impact on the consumer price index.

It will be monitored by Greece's special financial police, which supervises tax and customs administration.

Yannis Stournaras, the government's chief economic adviser, said headline inflation would slow in December "to 4 per cent or just below as the effects of cuts in consumption tax on new cars make a bigger impact".

Greece's core inflation rate, which does not include volatile food or fuel prices, fell from 5.5 per cent to 5.3 per cent in November, in line with forecasts by the National Statistical Service.

"Core inflation has been falling steadily and should decelerate next year by another 1.5 percentage points," Mr Stournaras said. "On this basis, we have an 80 per cent possibility of hitting the convergence target on inflation by next December."

Greece aims to reduce headline inflation to 2 per cent by the end of next year.

If this is achieved, its average yearly inflation rate would fall to 2.5 per cent.

To qualify for euro membership, Greece must reduce average inflation to within 1.5 percentage points of the average of the EU's three best inflation-rate performers.

NEWS DIGEST

TURKISH CYPRIOTS SNUB PEACE EFFORTS

Breakaway republic chooses new parliament

Turkish Cypriots yesterday voted for a new parliament for their breakaway Turkish republic of northern Cyprus, in a fresh rebuff for long-standing diplomatic efforts to reunite the island.

When the results of yesterday's poll, the third since Turkish Cypriots unilaterally declared their breakaway state in 1983, are announced this morning, Turkey will be the only country to recognise them. Since Cyprus's partition after Turkey occupied the north of the island in 1974, the international community has continued to recognise the government of Cyprus as the island's legitimate authority.

A majority of the breakaway state's 120,000 voters are expected to have backed the National Unity party or the Democratic party, whose centre-right coalition has run northern Cyprus since 1993. Both coalition partners are in favour of greater economic integration with Turkey. **Christopher de Bellaigue, Nicosia**

VENEZUELA PRESIDENTIAL ELECTION

High turnout in peaceful voting

Venezuelans yesterday cast their ballots in the most fiercely contested presidential election in the country's 40-year democratic history, after a campaign that deeply divided the oil-rich Latin American nation. Voter turnout appeared to have been strong in a generally peaceful and apparently transparent election process.

Election officials and the armed forces said early yesterday afternoon that there were no reports of significant irregularities anywhere in the country. They said fewer queues had formed than in last month's congressional elections as polling stations opened earlier and voters had to cast only one vote. **Raymond Colitt, Caracas**

NIGERIAN LOCAL POLLS

Praise for ballot conduct

Nigeria crossed the first hurdle on the road to democratic rule at the weekend with national and foreign observers commending a high turnout and relative peace at local government polls.

Some technical difficulties were reported, as were clashes in at least two areas of the oil-producing Niger Delta where communities have been fighting for control of scant local government funds. But the overall picture was of unusual calm.

"To our way of thinking the election displayed the enthusiasm of Nigerians to proceed rapidly towards democratic government," said Krishna Srinivan, the leader of a 17-strong Commonwealth observer mission.

Early indications suggested two broad coalitions, the All Peoples' party and the Peoples' Democratic party, had won strong nationwide support, while a third party, the Alliance for Democracy, performed well in the restive south-west. **William Wallis, Lagos**

ST PETERSBURG PARLIAMENT

Tight security round voters

Residents of St Petersburg voted for a new regional parliament yesterday amid heavy security and raw memories of Galina Starovoitova, the murdered democrat.

Some 5,000 police were drafted in to guard polling stations but voting appeared to pass calmly with a brisker turnout than expected.

Mrs Starovoitova, a member of the national parliament, was shot dead two weeks ago outside her St Petersburg flat. Her killers have not been caught but the murder seemed connected to her vigorous campaign for democratic candidates. Candidates who were close to Mrs Starovoitova have complained of intimidation and dirty tricks by their opponents. Some said they had received death threats.

At stake are 50 seats in the local legislature. Results are not expected immediately, and many seats are expected to go to a second round of voting. **Carlotta Gall, Moscow**

SAUDI BUDGET DEFICIT

Abu Dhabi loan denied

Saudi Arabia's finance minister Ibrahim al-Assaf denied at the weekend that the government was to get a $5bn budget deficit loan from Abu Dhabi. In an interview with the daily Ar-Riyadh, Mr Al-Assaf said both the FT report and an earlier one in an unnamed publication alluding to a $2bn loan from Abu Dhabi were "false". The finance minister acknowledged the Saudi budget shortfall would be wider than forecast, but claimed the deficit would be covered by "local loans".

Senior officials in Abu Dhabi have made no further comment on the loan, the existence of which they confirmed last week.

According to Saudi bankers, the Saudi government's ability to raise further budget deficit financing on the domestic market is constrained, first by the government's aggregate domestic indebtedness, which is in danger of exceeding 100 per cent of gross domestic product; and second, by a standing regulation of the Saudi Arabian Monetary Agency (the kingdom's central bank), which forbids commercial banks to lend more than 60 per cent of their total deposits to the government.
Robin Allen, Abu Dhabi

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EUROPEAN CENTRAL BANK EXCHANGE RATE 'WOULD BE CLOSELY WATCHED'

Duisenberg says ECB would not welcome overvalued euro

By Wolfgang Münchau, Peter Norman and Lionel Barber in Brussels

The European Central Bank would not welcome an overvalued exchange rate for the euro that could damage the international competitiveness of the 11 countries that will have the single currency, according to Wim Duisenberg, president of the ECB.

In an interview with the Financial Times at the end of last week, Mr Duisenberg said the ECB would closely watch the exchange rate of the euro and would not follow a policy of benign neglect.

He also said that the euro-zone's true current account surplus was only half as big as most estimates suggested.

And he signalled that the ECB might eventually publish a summary of the discussions in the governing council that would give a full and comprehensive summary of the arguments.

But he reiterated his previous refusal to publish verbatim minutes of the meetings.

Mr Duisenberg said he did not exclude the possibility of an appreciation of the euro against other currencies.

"As regards the exchange rate of the euro: it is one of the main indicators that we watch. But I am more fearful of volatility than the level. We have to avoid that to the maximum extent possible," he said. "As things stand, I don't exclude the euro being a strong currency. We don't want the exchange rate to unduly undermine the competitiveness of 'Euroland' [the euro-zone] with the rest of the world."

He said a currency appreciation constituted a tightening in monetary conditions that would give the central bank more room for manoeuvre on monetary policy.

Some forecasters predicted that Europe's large current account surplus would lead to an appreciation of the euro against the dollar.

However, Mr Duisenberg said that Europe's current account surplus may not be nearly as large as the official statistics suggested. Eurostat, the European Union's statistics office, has put the euro-zone's 1997 current account deficit at Ecu89.4bn ($104bn).

"Regarding the current account surplus, our latest indicators suggest it is only half as large as we thought it was.

"That reflects difficulties measuring intra-Europe trade. But it makes it of less concern to the exchange rate."

Mr Duisenberg reiterated his refusal to publish verbatim minutes and voting records of the ECB's regular council meeting, but suggested a compromise that could go some way to satisfy his critics.

"I do not expect publication of the minutes. What I do expect is an ever-increasing volume and quality of the arguments including the pros and cons underlying decisions that are to be taken," he said.

"I don't exclude for the future a summary saying these were the arguments, the views expressed and this is what the majority was."

He said a summary of arguments would be more useful then the publication of verbatim minutes, since minutes could lead to misperceptions in financial markets.

"We will never publish them. What I see happening in the UK does not encourage me either," said Mr Duisenberg.

"There the minutes lead to a debate in public and lead to market expectations which have an impact on volatility and uncertainty."

"I'm really not an admirer of that phenomenon. And that is a view shared by the entire council."

Mr Duisenberg also indicated that the ECB might eventually consider publishing a macro-economic forecast, once it is satisfied of the reliability of the economics statistics and forecasting models.

"I wouldn't exclude it for ever," he said, but "after a year might be a little too soon."

Builder of the euro team spirit, Page 17

EU north and south split on spending freeze

By Neil Buckley in Brussels

Benita Ferrero-Waldner (left), Austrian secretary of state for foreign affairs, talks to Wolfgang Schüssel, the country's foreign minister, Jacques Poos, Luxembourg's foreign minister, and Jacques Santer, EU Commission president, yesterday. Mr Schüssel is also president of the council of ministers AP

Deep divisions were emerging last night between northern and southern states over proposals to freeze European Union spending as part of a shake-up of the EU's Ecu85bn ($97.8bn) a year budget in the new millennium.

The growing rift at a meeting of EU foreign ministers in Brussels presaged difficult talks at the EU summit in Vienna next Friday and Saturday. The summit will seek to make progress on the Agenda 2000 reform programme designed to prepare the Union for enlargement to the east.

At the same time, pressure was intensifying on the UK to give up its Ecu3bn-a-year budget rebate, won after several years of trench warfare with other EU members by the then prime minister, Margaret Thatcher, in 1984.

Robin Cook, UK foreign secretary, insisted the rebate "could not be touched" in any EU budget review.

"We need the rebate and we also accept, as the [European] Commission has said, the rebate is justified," Mr Cook told reporters. "It is justified, it is right, we are going to keep it."

The UK won the rebate after arguing that because of the way the EU was funded, it paid much more into the budget than it received. Other countries, notably Germany, Austria, Sweden and the Netherlands, complain that they are now also heavy net contributors.

Freezing spending for the years 2000-2006 at the 1999 level of Ecu85bn, indexed to inflation, is increasingly being seen as one way of addressing such complaints.

Other proposals to iron out budgetary disparities, such as devolving some agricultural spending back to national governments, and a generalised system of budget corrections, have not found favour.

"Stabilisation" of the budget would at least allow net contributors to claim they had succeeded in ensuring their "unfair" share of the burden would not increase.

Up to eight EU states, including the four net contributors plus the UK and France, are now thought to back a freeze.

Agricultural spending would be capped at just below Ecu40bn a year while structural and cohesion funds for less developed regions would total less than Ecu200bn over the period – well below the Ecu240bn projected by the European Commission.

But the four countries which benefit most from the structural and cohesion funds – Spain, Portugal, Greece, and Ireland – are vehemently opposed. Abel Matutes, Spanish foreign minister, warned yesterday a spending freeze was "unacceptable". A middle group, including Finland, says budget stabilisation must take into account higher costs of EU policy reforms.

Report warns of profits fall in Europe

By Peter Marsh in London

The advent of the single European currency could result in a fall in profits of up to 20 per cent for some European manufacturers, particularly those that fail to differentiate their goods from competitors, according to an unpublished study by McKinsey, the management consultancy.

Manufacturers most at risk will be those selling products with relatively low technology or service content which may find it difficult to resist the trend towards lower prices likely to be ushered in by the euro. The single currency comes into being in 11 European countries on January 1.

The research underlines extra pressures many exporters may come under from the new currency, which is expected to lead to greater harmonisation of prices across the continent.

Companies likely to suffer most will be those selling commodity-type products in fields such as chemicals or engineering components. Makers of specialised machinery may be able to shield themselves from many of the pressures by adding additional features that justify a higher price.

According to the McKinsey study, many types of industrial product are currently priced 40-60 per cent higher in some European Union countries than in others, with higher price countries tending to be in northern Europe and lower price ones in the south.

The study looked at several sectors, including construction machines, car parts, pharmaceuticals and building materials.

To some degree, the price differentials are disguised at present because most goods are sold in national currencies, whose value can change. But after the euro is introduced many manufacturers selling across Europe are expected to price their products in euros. This will make it easier for purchasers to compare rival goods, and also make it harder for companies to maintain price differentials. Euro prices are likely frequently to be quoted even in those nations, such as Britain, that will remain outside the 11-nation "euro-zone".

The McKinsey study says that in some industries, the trend to harmonisation could lead to overall price falls of between 1 and 2 per cent, which could be equivalent to a drop of 10 to 20 per cent in operating profits.

But some industries, particularly those selling high-value, technology-based products will be able to "manage" price levels in a pro-active way, by adding extra modifications to specific products that increase their price, or "bundling" in with the cost of the product "service packages" under which they are responsible for maintenance and repair.

Smaller groups unaware of euro's effect

By Katharine Campbell, Growing Business Correspondent

A significant proportion of Europe's small and medium-sized companies either do not know what effect the new single currency will have on their business or think it will have none, a study has found.

Few companies propose changing their strategies to take account of the new environment.

An average of 33 per cent of smaller companies across the euro-zone itself – the 11 countries that will introduce the euro from January 1 – think monetary union will have no impact on them, while a quarter profess not to know what effect it might have.

However, among those that have identified possible ramifications, 33 per cent think these will be broadly positive, and only 8 per cent think they may be negative, according to the study by Grant Thornton International, the accountancy firm, and Business Strategies, an economic consultancy.

German Mittelstand (medium-sized) companies are among the most apparently insouciant, with 39 per cent thinking the euro's introduction will not affect them, the study found.

Some 7,000 smaller companies were surveyed in the EU, Switzerland, Malta, Turkey, Norway and Poland with 10 to 25 employees or sales of Ecu1m to Ecu40m ($1.17m to $46.6m).

Only 17 per cent of businesses in the euro-zone itself said they proposed changing their strategies to take account of the single currency. In the UK, 19 per cent were making alterations, despite not knowing when the country will join, compared with a mere 8 per cent of German companies.

Andrew Godfrey, head of growth and development services at Grant Thornton, said: "I am surprised UK companies are as switched on as they appear to be." He added that Germany's apparent apathy might be the combination of a reluctance to give up the D-Mark and familiarity as keen exporters with dealing in other currencies. "Of course, if they are treating the euro as just another currency, that could be dangerous."

Meanwhile, only 65 per cent of euro-zone companies expect to be invoicing in the euro by the end of 2000, although that rate picks up very significantly by the end of 2001. Some 94 per cent of Belgian companies are expecting they will do so by then, for instance.

Companies in the study proved remarkably assured that the prices would not change in the new euro environment. Fifty one per cent said they thought the prices they would obtain for their goods and services would remain the same, while 43 per cent reckoned purchase prices would be unaffected.

HURRICANE MITCH WORST HIT COUNTRIES WILL SEEK AID, DEBT RELIEF AND TRADE ACCESS TO THE US MARKET

Launch-pad for reconstruction

By Stephen Fidler
In Washington

Hurricane victim: a homeless girl wanders among the debris of houses near Choluteca in Honduras Reuters

Five presidents from central America are to launch a conference in Washington on Thursday to begin the effort of rebuilding central America after Hurricane Mitch, which US government scientists describe as the most destructive hurricane ever to hit the western hemisphere.

The heads of state from the worst hit countries, Honduras and Nicaragua, will be joined by those from El Salvador, Guatemala and Costa Rica to deliver a request in the US capital for aid, debt relief and above all for trade and access to the US market.

"The idea is is to try to use this as an opportunity: to use the reconstruction to build something better and not just to come back to where we were before," said Enrique Iglesias, the president of the Inter-American Development Bank, whose organisation is leading the reconstruction effort and hosting the meeting.

That opportunity can come, he and others say, in rebuilding countries less prone to disaster and states more responsive to people's needs.

It would come if regional economic integration through, for example, a regional electricity grid and road network, can be intensified and if economic diversity is increased.

A report from two UN agencies to be presented to the meeting makes a preliminary estimate of the hurricane's costs at $5.36bn.

But the figure – which includes "indirect damage" caused by lost production of goods and services – does not attempt to calculate the much higher costs of reconstruction.

The report, drawn up by experts from the UN Development Programme and the UN Economic Commission for Latin America and the Caribbean, makes clear the extent of devastation in Honduras: more than 76 per cent of the population was affected and damage of $3.64bn was equivalent to 77 per cent of last year's gross domestic product.

In Nicaragua, the estimated damage of $898m was equivalent to 44 per cent of 1997 GDP.

According to officials with knowledge of the agenda, the meeting's purpose is in part to give governments some idea of how much foreign support they can expect. However, because only five weeks have passed since the disaster and reconstruction plans have not yet been drawn up, pledges from foreign governments – eventually likely to run into billions of dollars – are expected to be preliminary.

More details will emerge at a meeting of donors next year in Stockholm, where donors will make clear what efforts they are making to avoid funds being lost through corruption.

Another big issue will be debt. On Wednesday, the Paris Club of creditor governments will meet to discuss central America – a meeting that follows a variety of bilateral debt relief initiatives from countries as diverse as the US and Cuba. Both Honduras and Nicaragua want to accelerate the benefits of the heavily indebted poor countries debt initiative, known as HIPC. Countries qualify for this complex debt relief procedure guided by the International Monetary Fund in a two-stage process, each lasting for up to three years.

Nicaragua is about two years into the first stage, but serious debt relief under it could be delayed until as late as 2002, while Honduras was not considered to have a large enough burden even to qualify.

Honduras owes 60 per cent of its $4.1bn foreign debt to multilateral agencies, and a quarter to the Inter-American Development Bank. Nicaragua owes 27 per cent of its $6.1bn debt stock to multilateral agencies, 27 per cent to creditor governments in the Paris Club and 42 per cent to non-Paris Club governments.

Nicaragua is asking for an acceleration of debt relief under HPIC, and Honduras wants access to its benefits and accelerated debt relief. A review of the requests, led by the IMF, should be completed early next year.

However, the message the five leaders will be delivering most forcefully to the US is that trade is better than aid. The five governments want access to the US market on a par with that enjoyed by Mexico under the North American Free Trade Agreement. There are, say officials, sympathetic voices on Capitol Hill to the proposal. But with Washington sensitive to the growing US trade deficit, next year may not be the best for pushing through such an initiative.

Mexican budget hit by cut in oil prices

By Henry Tricks in Mexico City

Mexico's divided Congress faces its toughest test yet this week as it seeks to hammer out a 1999 budget by a December 15 deadline as well as find a solution to a banking controversy that simmered since March.

The budget negotiations were in uncharted waters after the government on Friday informed Congress it was forced to slash its estimate for oil revenues next year, which account for more than a third of budgetary income.

That puts the onus on Congress to make an additional 17bn peso ($1.7bn) in spending cuts to compensate for the shortfall in what was already considered one of Mexico's leanest budgets.

Meanwhile, party leaders were more wrapped up in the political battle over Fobaproa, the trust fund that handled the $60bn bailout of the banking sector after the 1994 peso crisis.

The ruling Institutional Revolutionary party (PRI) and the pro-business opposition National Action party (PAN) said they had reached agreement on the technical details of establishing a replacement institute, which is considered critical to the safety of Mexico's ailing banking sector.

The opposition has long maintained that Fobaproa acted unconstitutionally and arbitrarily – a charge denied by the government.

The two sides are still at loggerheads over the fate of Guillermo Ortiz, the central bank governor.

The PAN has set his resignation as an inflexible condition for settling the issue.

The negotiations on both fronts test Congress's ability to overcome divisions that have turned it into a legislative minefield since last year when the PRI lost its majority in the Lower House for the first time. Instead of uniting against the PRI, the opposition has squabbled bitterly.

Congress has until December 15 to reach agreement on the budget, or it would be forced to call an extra session over Christmas.

If there is no settlement by December 31 lawmakers say Mexico has no contingency plan for 1999 and debt payments and public sector salaries would be frozen, throwing Mexico into chaos.

"If we fail to approve the fiscal package by December 15 it would be an unpardonable irresponsibility, it's that simple," said Fauzi Hamdan, the PAN's senior finance committee legislator.

Budget negotiations, however, were back to square one after the government announced it lowered its estimate for the price of oil to $9-$10bn in 1999, from $11bn in its initial budget proposal sent to Congress on November 13.

It made the alteration after the cost of Mexican crude slipped to $7.50 per barrel on Friday, the lowest level in modern times.

The oil price slump, driven by global over-supply, has been so hard to gauge that just hours before its announcement finance ministry officials had said the 1999 price would have a base of $9.50.

The ministry said the revised projection forced it to shave 8.5bn-17bn pesos off its 1999 revenue estimates.

Marco Provencio, the spokesman, said the government would ask Congress to suggest further spending cuts to keep President Ernesto Zedillo's 1.25 per cent budget deficit target in tact.

Hoffa wins race to head union

By Mark Suzman in Washington

James Hoffa, the son of the legendary former head of the Teamsters, won the race for his father's old job at the weekend, setting the stage for strained relations between the largest private sector union in the US and the broader labour movement.

With most of the votes from the mail-in ballot counted yesterday, Mr Hoffa looked set for a comfortable victory against Tom Leedham, a West Coast union leader who was running on a platform of further reforms in the union, which has a long history of corruption and mismanagement.

Mr Hoffa's candidacy had been opposed by reformist leaders in the AFL-CIO, the leading US union federation. He is seen by critics as the voice of the union's old guard and at odds with the progressive tone the broader labour movement has tried to promote in recent years.

By contrast, Ron Carey, the former president of the Teamsters, was closely identified with John Sweeney, the head of the AFL-CIO, and the reform movement. Mr Carey narrowly defeated Mr Hoffa in the union's 1996 election and last year won national prominence by leading it through a successful strike against UPS, the parcel service company. However, Mr Carey was forced to resign after aides were found guilty of illegally using Teamsters funds to help pay for advertising in his re-election campaign, prompting the new government supervised poll.

Speaking to NBC television yesterday, Mr Hoffa said his top priority would be to unite the union's membership in the wake of the divisive elections, which he described as a "civil war". He also promised that the union would be more aggressive in negotiations to get the best deal for its members. However, he admitted that getting on with other leaders in the AFL-CIO might be a problem. "That's going to be a challenge for us," he said, alluding to the federation's strong support for Mr Carey. "But we're willing to turn the page on that. We want to start working in the house of labour."

Mr Leedham, a former ally of Mr Carey's, said the fact that Mr Hoffa had been active in the 1996 election had made it much more difficult for challengers. "The returns have made it clear that our campaign for rank and file power ran out of time," he said. "Hoffa Jr campaigned for four years, spent $6m and had a famous name."

Mr Sweeney struck a more conciliatory note. "The AFL-CIO needs a strong and united Teamsters union and it needs the involvement of Jim Hoffa," he said.

Cable groups flex muscles for fresh clash

US industry nerves rattled by government pledge to examine AT&T/TCI merger plans

By Christopher Parkes
In Los Angeles

Tension is rising again between US government regulators and the cable television industry. Long at war over allegations of over-charging for television services, the two sides are shaping up for a clash on the rights of "outsiders" to internet access via cable, seen by many as the fast track to growth for electronic commerce and interactive TV.

The issue boiled up last week when William Kennard, chairman of the Federal Communications Commission, rattled nerves among cable providers with a promise to look closely at the implications of the planned merger of Tele-Communications (TCI) and AT&T, the long-distance phone group.

The proposed $48bn link is widely seen as an endorsement of cable as a primary carrier for internet and telephony services which will lead to other such alliances and rich revenues for cable companies.

Although regulatory probes of the AT&T/TCI link were inevitable, the industry's anxiety had been heightened by calls on Mr Kennard from America Online, the world's leading internet service provider, for the same access rights to cable networks as they now enjoy with conventional telecoms links.

Leo Hindery, TCI president, told an industry conference last week that, if the commission favoured AOL, perhaps the merger should be called off.

Decker Anstrom, president of the National Cable Television Association, preferred a co-ordinated approach and said companies should join forces to head off the threat of its cable services being hobbled by telephone-style regulations.

AOL sees services such as @Home, a high-speed cable internet service part-owned by TCI, as a threat to its established but far slower telephone-based business. TCI sees no reason for it to be obliged to open up its expensive conduits to a rival with 15m existing subscribers while @Home – although due to be expanded quickly in March when the AT&T merger is to be completed – has only 210,000.

"I don't even know if I have a business yet," Mr Hindery said, and it was only reasonable for the FCC to await events. "If I act like a jerk, then you can set policy."

John Malone, TCI chairman, and a long-time commission antagonist, said he would be prepared to pipe AOL for a service fee – much as cable companies charge extra for subscribers to premium TV channels such as HBO.

But he would not tolerate AOL's being allowed free range on TCI systems without any control over the rates charged.

The cable industry's conversion of TV systems to carry high-speed internet and other two-way services started in earnest only in the past year.

Completion will take about five years and billions of dollars in hardware. As Mr Hindery suggested, it may be too early to lay down hard and fast rules in Washington.

However, the industry is under unusual pressure from several sides. It is especially wary of changes in the market where its dominance of television programming supply is newly threatened by satellite providers which now supply 10m homes.

The recent acquisition by EchoStar of the $1.5bn satellite TV assets of News Corporation, including the licence for the last broadcasting slot covering the whole US, increases the challenge. The News Corp interests will allow EchoStar to beam up to 500 channels to a single 18in rooftop dish.

Cable companies remain almost wholly dependent on TV and are subject to minute FCC and consumer scrutiny

Cable, which typically provides about 60 channels now and is gearing up for many more with digital conversions, is counting on finding fresh revenue sources in other services which, according to Mr Hindery, could provide half of cable's future revenues.

Its past experiences with regulators and related poor record for consumer service, have made it especially sensitive to suggestions of more political intervention to follow events of the early 1990s, when Congress imposed price controls.

Although cable companies now call themselves multisystem operators, they remain almost wholly dependent on TV, and are subject to minute scrutiny by grassroots consumer groups and the FCC.

They still draw fire for "unreasonable" subscription rises of double the rate of inflation, while their protests that they have no choice because programme costs are rising by 10 per cent and more a year, go largely unheard among consumers.

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LOCKERBIE SUSPECTS ANNAN FAILS TO SECURE TIMETABLE FOR TRIAL

Libya refers handover to parliament

By Mark Huband in Cairo

The Libyan leadership resisted pressure over the weekend to hand over for trial two men accused of masterminding the bombing of a Pan Am flight over Lockerbie in Scotland in 1988, by referring the decision to the Libyan parliament.

Kofi Annan, the United Nations secretary-general, met Muammer Gadaffi, the Libyan leader, for a 90 minute meeting in Libya on Saturday. Meetings between Libyan and UN officials in New York in advance of Mr Annan's visit had prepared the UN head for the probability that he would leave Libya without a firm timetable for the handing over of the suspects for trial.

"They need to get the congress and the people involved," Mr Annan said on his return journey to Tunisia on Saturday night, referring to the General People's Congress, Libya's appointed legislature. "I hope that their own internal discussions on an issue that is this sensitive and has gone on for so long will be concluded fairly shortly," he said.

"[The Libyans] are serious and will require some time... So I hope that in the not too distant future we will be able to give the families some good news and that they can put this issue behind them," he added, referring to the families of the 270 people who died when the aircraft exploded in December 1988.

But Libya's official news agency, Jana, yesterday poured cold water over western hopes for a handover. "The Lockerbie problem is an invented and complicated one and it is not logical and reasonable to solve it under the pressure of what is called the 10th anniversary of the Pan Am accident," it said.

Robin Cook, UK foreign secretary, nonetheless appeared optimistic yesterday following a telephone conversation with Mr Annan. "I am very encouraged by what he tells me. Neither of us is going to predict what Colonel Gadaffi is going to do, but I think you can sum up our mood as one of qualified optimism," he said.

Libya has agreed to allow Abdel Basset Ali Mohammed al-Megrahi and Lamin Khalifa Fhimah, the two suspects, to be tried in a Dutch court under Scottish law but has rejected UK and US demands that, if convicted, they serve their sentences in Scotland. Refusal by the UK and US to negotiate on this issue was stressed by Mr Annan during his meeting with Col Gadaffi, who has said imprisonment should be in the Netherlands or Libya.

Omar Montasser, Libyan foreign minister, is said to have told UN officials that he will recommend to the General People's Congress that it accept the offer of a trial in The Netherlands under Scottish law. The congress is is scheduled to meet tomorrow and has never voted against the directives of the Libyan leadership.

"Whether [Mr Montasser] will be able to do it on Tuesday or will require a bit more time, I don't know," Mr Annan said. Earlier he said talks with Col Gadaffi and officials had been "fruitful and positive", though this appeared to imply that his Libyan hosts had been prepared to listen to his clear statement that Libyan compliance was essential if economic sanctions and an air embargo in force since April 1992 were to be lifted.

Khatami supporters set up new reformist party

By Robin Allen and Agencies

A new reformist political party has been established in Iran by more than 100 political and cultural figures who support moderate President Mohammad Khatami, newspapers reported yesterday.

Founders of the new party, the Islamic Iran Participation Front, said they were seeking "freedom of thought, logic in dialogue and rule of law in social behaviour," the daily newspaper Zan said.

Founding member Najafqoli Habibi said the new party's constitution was essentially formed around Mr Khatami's reformist agenda.

"Civil participation, social justice, materialising freedoms stipulated in the constitution and the rule of law are among the objectives of the party," Mr Habibi said.

Members of the Front include one vice-president, four ministers, seven deputy ministers, a parliamentary deputy, nine journalists, a poet, a film-maker and two leaders of Iran's largest student movement. Vice-president Masoumeh Ebtekar, the only female member of Mr Khatami's cabinet, and Mostafa Tajzadeh, the deputy interior minister and an ardent advocate of pluralism and decentralisation, are among the founders.

"The party will definitely take an active part in the upcoming city and village elections [in February 1999] as well as the Majlis elections [in March 2000]," said Abbas Abdi, another founder and editor of the pro-Khatami daily Salam.

The formation of the IIPF represents the most definitive response yet by supporters of President Khatami to counter a recent surge of action by militant hardliners to intimidate reformists and derail the president's policies to open up Iran in both domestic and foreign policy arenas.

In the last three months the conservatives, under authority from Iran's spiritual leader Ali Khamenei, who controls the state media and is the ultimate arbiter over Iran's foreign policy, have forced the closure of a number of moderate newspapers and other publications.

This deprived reformists of an important platform, because up to now, in the absence of political parties, newspapers and other publications have provided the only structured forum for the dissemination of political opinion.

The mother of a Palestinian prisoner in an Israeli jail breaks down during a protest in Gaza yesterday Reuters

Palestinian prisoners on hunger strike

By Avi Machlis in Jerusalem

Hundreds of Palestinian prisoners in Israeli jails launched a hunger strike at the weekend to protest at Israel's refusal to free political prisoners under a recent peace deal.

Palestinian disappointment with interim peace deals has erupted into violence throughout the West Bank. Angry protests turned into clashes between demonstrators and Israeli troops. Many protesters direct their frustration at Yassir Arafat, president of the Palestinian Authority, and his failure to secure the release of 2,500 prisoners in negotiations with Israel.

The tense atmosphere could prove embarrassing when US President Bill Clinton arrives for a visit to the Gaza Strip next week, aimed at pushing forward implementation of the Wye interim accords signed in Washington in October.

Mr Clinton plans to attend a meeting of the 700-member Palestine National Council, which is expected to reaffirm a letter in which Mr Arafat nullified articles of the Palestinian covenant that called for Israel's destruction.

At the weekend, the US State Department backed Israel's decision to free 150 criminals among 250 Palestinian prisoners released last month. Palestinians demand the release of political prisoners – who now want to be recognised as "prisoners of war". Israel, which has agreed to free another 50 prisoners, refuses to release Palestinians convicted of killing Israelis or Palestinians.

At least 680 Palestinian prisoners have begun hunger strikes. "This hunger strike is against both Israel and the Palestinian Authority," said Abdel Latif Ghaith, head of the Prisoners Support Centre in East Jerusalem. "The prisoners believe their cause must be put at the top of the agenda in order for true peace to be achieved."

The Palestinian Authority yesterday launched a campaign to round up illegal weapons in the West Bank and Gaza Strip, as agreed in the Wye accords. This is a key commitment given to Israel as part of the deal under which Israel agreed to hand over 13 per cent of the occupied West Bank in exchange for enhanced security co-operation. But last week, Israel said it would not hand over any more land unless the Palestinians complied with several new conditions.

Unions still under threat, warns ILO

By Robert Taylor, Employment Editor

Today in London the International Labour Organisation commemorates the 50th anniversary of the signing of its legal convention affirming the right of workers to join trade unions at a time when that freedom is under increasing threat around the world.

The UK government is ensuring the occasion is a low-key affair. Only second-rung UK government ministers – Ian McCartney and Andrew Smith – will be present at the gathering at Lancaster House. Fifty years ago it was Ernest Bevin, the Labour foreign secretary of the day and former trade union leader, who ensured the UK was the first country in the world to ratify the freedom of association convention.

This summer the ILO won widespread support for a declaration laying out fundamental principles and rights at work. This is designed to encourage governments to adhere to labour conventions such as freedom of association rather than ignore or suppress that right. As many as 122 out of the 174 member states of the ILO have ratified convention 87 and 138 have ratified its complementary convention on the workers' right to organise and bargain collectively. But the ILO admits that although the 50th anniversary is being commemorated by unions across the world it is not a moment of "unmitigated joy".

"Serious infringement of the right to freedom of association has not ceased despite the means of following up complaints," the ILO admits in a publication to commemorate the occasion. Investigations have been held recently into the abuse of trade union rights in Malaysia, Guatemala, the Ivory Coast, Romania, the Dominican republic, Turkey and Panama. Over the past 25 years there have been more than 120 specific cases of violations of the convention investigated in 60 countries.

The Brussels-based International Confederation of Free Trade Unions revealed in its annual union rights survey recently that 300 trade unionists were murdered in the world last year, with 1,681 tortured and a further 2,329 detained.

The ILO secretariat in Geneva hopes the arrival of Juan Somavia, Chile's United Nations representative, as the organisation's new director-general next March will go some way to reviving the ILO's public stance in defending union rights. "The purpose of this year's declaration on rights and principles is to promote respect for fundamental rights, not to punish failure," explains the ILO in its commemorative publication. "Moral persuasion backed up by widely shared information can be a powerful incentive."

In fact, the ILO has always lacked the power to use sanctions against states that flout its conventions they have agreed to sign. It must rely entirely on international public pressure to ensure enforcement.

But as Geraldo von Potobsky, former ILO head of the freedom of association branch, admits: "In most countries, north and south, the trade union movement is losing ground and is being seriously questioned in certain sectors and countries, including those where it had seemed most firmly established."

International Labour Review 1998/2. ILO, CH-1211 Geneva 22, Switzerland.

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CENTRAL BANK MOVE SEEKS TO BOOST CONSUMER SPENDING AND AID INDUSTRY

Beijing cuts rates again

By James Kynge in Beijing

China announced its third interest rate cut in 14 months yesterday in an attempt to boost consumer spending and ease the burden on ailing state-run industries.

The People's Bank of China, the central bank, said it would reduce the lending and deposit rates of financial institutions by an average of half a percentage point from today. The benchmark one-year savings deposit rate was cut from 4.77 per cent to 3.78 per cent, while the 6-12 month lending rate was trimmed from 6.93 per cent to 6.39 per cent.

Xinhua, China's official news agency, said the move would help "appropriately" increase money supply next year, slash the debt repayment burden of state-owned enterprises by RMB23bn ($2.8bn) a year, boost consumer spending and promote exports.

The cut in deposit rates was greater than the cut in lending rates, reflecting the government's desire to support a state banking system struggling with problem loans amounting to around 25 per cent of total assets.

The hefty cut in deposit rates was also a sign that authorities regard the boosting of money supply as a key to tackling the weakness in China's consumer market – probably the government's greatest challenge in reinvigorating the wider economy.

Chronic oversupply of many products and weak demand has driven 13 straight months of deflation, which has made real interest rates high. Retail prices in October fell 2.9 per cent against the same month a year ago, slightly less than the 3.3 per cent decline in September.

The interest rate cuts so far this year have had little reflationary effect. This is partly because spending power has been hit by a reduction in state benefits for education, insurance and housing, and partly due to concern over job security during three years of reforms to state-owned industries.

Economists said, however, that this cut could have more impact because it coincided with a RMB100bn fiscal stimulus package directed mainly at infrastructure spending. By official statistics, which are believed to overstate reality, China grew at 7.2 per cent in the first nine months of the year and authorities are confident that growth will pick up in the fourth quarter.

● China said yesterday it would soon announce new regulations cutting the prices of pharmaceuticals, hitting the interests of foreign companies that control around 80 per cent of the market in some Chinese cities. The move is designed to pave the way for health-care reform, and make medicines affordable to ordinary Chinese, the official media said.

Debt-for-equity swap planned

By Sander Thoenes in Jakarta

Two companies hope to get government permission this month for the first debt-for-equity swaps in Indonesia.

This comes after regulatory changes designed to speed the restructuring of $80bn in private foreign loans and billions more in domestic debt.

The Jakarta Post reported at the weekend that Regent Pacific Private Equity, a fund of the Regent Pacific Group, expected to complete a swap of 12.5m new shares in Budi Acid Jaya, an Indonesian tapioca starch manufacturer, for $4.7m. This would reduce the company's $41m debt, including $36m owed to a syndicate led by Overseas Chinese Bank Co-operation of Singapore.

Budi said it had already reached agreement with its creditors for rescheduling its debt over five years. Regent Pacific Private Equity said it had invested $28m in Indonesian companies this year and had allocated $60m to be invested next year.

A handful of mid-size Indonesian companies have already obtained approval to delay payments but none has restructured its debt, which could involve reductions, changes in loan structure or transfer of assets.

Harun Hajadi, managing director of Ciputra Development, the big property company, said "just over 81 per cent" of the holders of Rp450bn ($60m) in bonds had already agreed and most others were expected in effect to waive interest in return for 58.6 per cent of shares in a Ciputra subsidiary which controls a large unfinished housing estate in Surabaya, Indonesia's second city.

Mr Harun said Ciputra had already transferred some property to secured domestic lenders and hoped to conclude a similar agreement with unsecured foreign lenders next year. This would let Ciputra ease the burden of $469m in domestic and foreign debt while maintaining management of the property, with a buy-back option for the shares or assets transferred to creditors.

Ciputra has yet to obtain permission for listing its Surabaya subsidiary and handing the shares directly to its creditors, and Mr Harun said he structured the deal to avoid labelling it a debt-for-equity swap. The stock exchange authority failed to approve the first agreed debt restructuring, for a taxi company, until its main creditor, Peregrine, collapsed in January.

Owners of some companies have opted to buy back bonds at a discount rather than renegotiate, often upsetting syndicated lenders who want to have a say in the use of company funds. Mr Harun said Ciputra could have bought back bonds at 18 cents to the dollar this year if it had found the cash.

Boost for democracy in Taiwan elections

By James Harding in Taipei

The most plainly popular winner at legislative, city council and mayoral elections in Taiwan over the weekend was the democratic process itself.

Voter turnout was more than 80 per cent for the mayoral elections in the two big cities. On Saturday night as the results came in, tens of thousands of people gathered outside the campaign headquarters of the two leading candidates in Taipei, waving flags, singing campaign chants and letting off fireworks.

As Beijing begins to digest the outcome of the vote, political analysts in Taipei yesterday suggested that mainland China would do well first to understand the great public enthusiasm for Taiwan's decade-old multi-party democracy.

Liaw Guang-sheng of the National Taiwan University said: "Taiwan's democracy is peaceful and successful... it has challenged Beijing's concept of democracy."

The results themselves, though, have perhaps proved a relief for Beijing, which studies closely the political process on the island that the Chinese leadership would dearly like to see reunited with the mainland.

Chen Shui-bian, mayor of Taipei for four years and an explicit supporter of full independence for Taiwan, lost his bid for re-election to Ma Ying-jeou, the Kuomintang (KMT) challenger, who may take a slightly more accommodating line.

Ma Ying-jeou celebrates; Beijing may do the same

In the legislature too, the Democratic Progressive party to which Mr Chen belongs has lost ground. The DPP's share of the seats has fallen from 33 per cent to 31 per cent, while the ruling KMT has increased its majority.

The party won 124 of the seats in an expanded chamber that will now have 225 members.

But the main opposition party was by no means wiped out. The most surprising result of the election was the narrow win by the DPP's candidate, Frank Hsieh, in the elections for mayor of Kaohsiung, Taiwan's second city.

After a particularly nasty campaign, marked by allegations of sexual infidelity against one candidate and a campaign to smear the professional conduct of another, Mr Hsieh beat the KMT incumbent, Wu Den-yih, by just 4,565 votes.

Nor has Mr Chen's defeat ruled him out as a potential DPP candidate for the presidential elections in 2000. Indeed, when the defeated former mayor of Taipei greeted his campaign workers late on Saturday night, the crowd masked its disappointment by calling out "Hello, Mr President!"

Another troubling signal for Beijing was the sorry performance of the New party, the political group most eager to advance the process of reunification.

In the Taipei mayoral race, the New party won just 3 per cent of the vote, an indication of the marginalisation of the pro-reunification camp and the broad public support behind the political consensus that has emerged for de facto independence.

Given the basic agreement between the two leading parties on Taiwan's relationship with mainland China, the legislative and mayoral elections turned largely on local issues and questions of character.

Mr Ma, a handsome, Harvard-educated lawyer, was said to have scored highly with female voters, while Mr Chen, Taipei's mayor for the last four years, suffered from public perceptions that his leadership has sometimes been high-handed.

HK gang leader executed in China

By Louise Lucas in Hong Kong

The Hong Kong gang leader whose mainland trail raised concerns in some legal circles was executed in southern China on Saturday.

While Cheung Tze-keung failed in his attempt to have the case heard in Hong Kong, where he carried out some of his crimes and where there is no death penalty, the issue has accelerated talks on the movement of fugitives between the territory and China.

Cheung's death sentence was handed down at the end of last month for smuggling explosives. Other crimes for which Cheung and 35 of his henchmen were found guilty include the kidnapping of two Hong Kong tycoons.

Some Hong Kong politicians and lawyers, including the respected Bar Association, have argued that Cheung should have been tried in Hong Kong for crimes which were committed there.

They said that by trying the entire case in a mainland court, Beijing was undermining the "one country, two systems" concept that underpins Hong Kong's post-handover constitution.

A key element of Hong Kong's system is its legal autonomy and rule of law. However, Hong Kong government officials said that as Cheung was arrested in China and committed crimes there, it was right that he should be tried there. Hong Kong police had failed to collect sufficient evidence to make an arrest.

The death sentence underlined the mainland's determination to stamp out organised crime in Hong Kong and Macao, the Portuguese enclave that returns to Chinese rule next December.

Rethink free trade zone plan, Tanzanians urge

Manufacturers protest that reviving the East African Community will hurt them and favour Kenya, writes **Mark Turner**

Tanzanian manufacturers are calling for a rethink of plans to commit their country to a free trade zone with Uganda and Kenya next July.

The three countries' heads of state plan to sign a treaty reviving the East African Community (EAC), but Natwar Gotecha, vice-president of the Confederation of Tanzanian Industry and chief executive of the Tanzania Cigarette Company, warned that the elimination of tariffs in east Africa could destroy Tanzania's nascent manufacturing sector.

"A lot of our members say that they are not ready for a free trade agreement, that they will be killed by the EAC," said Mr Gotecha. "There has been no real economic analysis of why Tanzania should be in the community."

Jayesh Shah, managing director of Sumaria Holdings, an industrial conglomerate, said that although regional free trade was the "right direction to go", Tanzania was committing itself too quickly to a treaty that would, at present, best serve Kenya's interests.

"When we started reading the treaty, we realised we were signing something which seemed to be a Kenyan document," said Mr Shah. "We should not consider that the three countries are equal. If we are unequal, it should be recognised."

Under the draft treaty, east Africa intends to eliminate all internal tariffs by 2000, remove all non-tariff barriers, and create a customs union with a common external tariff within five years. But there is no mechanism, financial or technical, to compensate weaker states like Tanzania for the advantages of more industrialised partners – namely Kenya.

Mr Gotecha wants Tanzania to be able to cut tariffs more slowly than Kenya. "Tanzania at present has higher energy costs, higher duties on spare parts, more payroll taxes, more expensive skilled labour and fewer economies of scale," he said. "Kenya is 15 years ahead."

Tanzanian politicians are beginning to respond to growing pressure from the private sector. Jakaya Kikwete, foreign minister, said he intended to negotiate "some kind of compensation mechanism", but had no specific proposals on the table.

The doubts are casting a question mark over the treaty's July signature date. "Quite frankly I cannot say 'yes' or 'no' if 'the July deadline will be met'," said Daniel Yona, the finance minister. "These things tend to slip, because you need consensus. We want to do it the right way this time; if it takes a few more months, or a year or two, we will wait."

High Court to consider validity of smokers' case

By Robert Rice, Legal Correspondent

The legal test case being brought by 53 lung cancer victims against Imperial Tobacco and Gallaher, makers of 80 per cent of the cigarettes sold in the UK, returns to the High Court today for a hearing that could stop the case going to trial.

The tobacco companies want the court to rule on whether the victims have left it too late to sue.

They say that 37 of the 53 plaintiffs were diagnosed with lung cancer more than three years before commencing legal action and therefore are barred from suing by the 1980 limitations legislation.

The victims are suing for the alleged failure of the tobacco companies to comply with a duty to minimise risk to consumers by reducing tar levels in cigarettes when the link between tar and cancer became clear in the late 1950s.

Last month HSBC Securities downgraded its investment recommendations on Gallaher and Imperial from "add" to "hold". HSBC said: "Our concern is prompted by a sense that investors have become too dismissive of the UK tobacco litigation." Under English law victims have three years to sue from the date they first realise they have a significan injury that may have bee caused by the alleged neg gence of the defendant.

If they do not sue with thre ears they are barred from naking a claim unless the ourt uses its discretion to alow them to proceed.

In leciding whether to let the ases proceed the judge will have to assess the merits the overall case against the obacco companies. This wil be the first time that the sustantive arguments in theitigation will be aired in cout and the hearing is expcted to last two weeks.

Te tobacco companies say hat of the 10 plaintiffs seleted by both sides as "lea cases", nine were diagnosd as suffering from lung caer more than three yes before writs were issd. On average the plaintif are 10 years too late to su they say.

r Justice Wright was assned to the case in April an in June he made a prelinary ruling that there shald be a trial of the limitaon issues and that plaintif who discontinued their acons should pay their pron of the defendants' common costs up to the date of discontinuance, plus any cts specific to their case.

he plaintiffs are appealin against that costs order a the Court of Appeal is ected to hear the appeal February. The trial itself not expected to start until nuary 2000. Since October 97, 25 of the original 62 laintiffs have discontinued claims against one or other of the defendants and nine have discontinued their claims against both. Costs orders have been made against them.

Anger at minister over China visit

By David Wighton, Political Correspondent

Clare Short, the outoken international develment secretary, provoked other storm yesterday by oudly declaring that she resed to lobby on behalf ofritish companies during recent trip to China.

She said it was nher job to help British cpanies win overseas conicts and that foreign counts should buy goods from thcheapest suppliers.

In a televisionterview she revealed th her officials had suggted she could put in a gd word for British compan. "Within my briefing the was some suggestion that night raise the odd contr: that was around. I didn'other."

One senior mber of the govenment ast night admited it w a "serious gaffe" that as "pretty embarrassin for British companies".

Downing reet merely said Ms Sho was the government's "ice" on international devopment issues and that govenment "invests a ge amount of time and resources promoting British firms overseas to considerable effect".

Ms Short's attitude was immediately condemned by John Redwood, the opposition industry spokesman, who called on the prime minister to make clear that all ministers had a duty to promote British companies. "I'm calling on Tony Blair [the prime minister] today to discipline Clare Short and tell all ministers that they must help business from Britain when travelling abroad at taxpayers' expense."

The Confederation of British Industry said it saw the role of government ministers as "facilitators in building and developing trade between the UK and China". But it did not expect ministers to "promote individual companies or deals".

Ms Short has a record of outspokenness that has earned her rebukes from the party leadership. Most recently, Mr Blair was forced to distance himself from an attack she made on President Clinton, who she said was "not really fit" to hold high office.

Cu' in interest rats expected

By Robert ote, Economic ditor

The Bk of England's moneta policy committee is expeed to cut UK interest rate or the third time in as man months this week, amid pdictions that base rates ght eventually fall as low 3 per cent.

In a ll of 26 independent econosts by Reuters, 20 expect a quarter-point cut, three xpected a half-point cut a three expected no chan. The median view saw 75 per cent chance of rates lling this week and a 25 p cent chance of them remaing at 6.75 per cent.

T MPC starts its meeting 1 Wednesday and will announce its decision at noon on Thursday. Expectations of a further rate reduction have taken hold since the publication of the Bank's unexpectedly hawkish Inflation Report last month. Survey data have suggested that the economy is slowing faster than expected, with weakness now firmly established in the hitherto robust service sector.

The Chartered Institute of Marketing predicted in its latest quarterly economic report that the UK would narrowly escape a technical recession, in which output falls in two successive quarters. The institute projects growth next year of no more than 0.4 per cent.

CONSTITUTION PARTY LEADER PERSUADED TO DROP POLICY TRUMPETED AS FLAGSHIP PROPOSAL

Tories abandon plans for English parliament

Conservative party leader William Hague Press Association

By George Parker and David Wighton in London

William Hague, leader of the Conservatives, the main UK opposition party, has abandoned plans to set up an English parliament, just two months after the idea was billed as the flagship proposal in his speech to his party's annual conference.

Mr Hague had argued that an English parliament could serve as a counterweight to the new parliament in Scotland and the national assembly in Wales. But his allies have persuaded him to drop the idea, arguing it would establish a powerful rival to the UK parliament and could undermine the union.

However, Mr Hague is hoping to open up another front in his battle over the government's constitutional reform by proposing the replacement of the power of hereditary peers with an indirectly elected second chamber.

Mr Hague believes the move will bolster Tory criticism that the government is pressing ahead with abolition of hereditary peers from the second chamber without having decided what to put in their place.

Some form of indirectly elected upper house is expected to be the main recommendation of a review of Conservative policy on Lords reform currently being conducted by Lord Mackay, the former Lord Chancellor.

But Tory attacks on the government were yesterday once more overshadowed by infighting following Mr Hague's sacking of Lord Cranborne as Conservative leader in the House of Lords. Lord Fraser, who resigned as deputy leader in the Lords, accused Mr Hague's office of poisoning Lord Cranborne's reputation "rather than reflecting on how best working relationships with Tory peers in the Lords might be re-established".

The abandonment of the English parliament proposal will be confirmed within the next few weeks, when the Conservatives publish their plans for future arrangements for England in the post-devolution UK.

"We looked at an English parliament, but the arguments against it were too powerful to be surmounted," said a senior Conservative official.

The decision is embarrassing for Mr Hague, whose aides billed the proposal as one of the most important aspects of his conference speech in Bournemouth in October.

However Michael Ancram, party chairman, and Liam Fox, constitutional spokesman, both feared the creation of an English parliament would render the UK parliament largely irrelevant.

Government to set up $41m fund for victims of Nazis

By David Wighton, Political Correspondent

The UK government is to set up a £25m ($41.25m) fund to compensate victims of Nazi persecution for assets confiscated by Britain during the second world war.

Peter Mandelson, the trade and industry secretary, will today announce plans for an independent panel to consider claims. The move will put pressure on other countries, such as the US and Switzerland, to follow suit.

The assets mainly involve victims from Hungary, Romania, Bulgaria and the Czech Republic whose property was confiscated because their countries were held to be allied with the Nazis. In the run-up to the war, thousands of Jews moved assets to Britain, Switzerland and the US only to have them seized when the war broke out. The British government has admitted that previous efforts to offer compensation have been inadequate and unfair.

The Holocaust Educational Trust has identified about 300 claimants from eastern Europe, Israel and Argentina who will be allowed to claim their property with reasonable proof of ownership.

Mr Mandelson will use a speech to the Anglo-Israeli Trade Federation in London to outline the plans for full payment of claims before announcing the details in the Commons on Tuesday.

The government's move follows last week's international conference in Washington on holocaust assets where delegates from 45 countries agreed a set of principles for returning art works looted from Jewish owners. Some estimates put the value of missing art works at $30bn.

Earlier this year, UBS and Credit Suisse, the two biggest Swiss banks, headed off a threat of sanctions by US pension funds by agreeing to pay $1.25bn to holocaust survivors. Other European banks, insurance companies and industry groups are under pressure to offer similar settlements.

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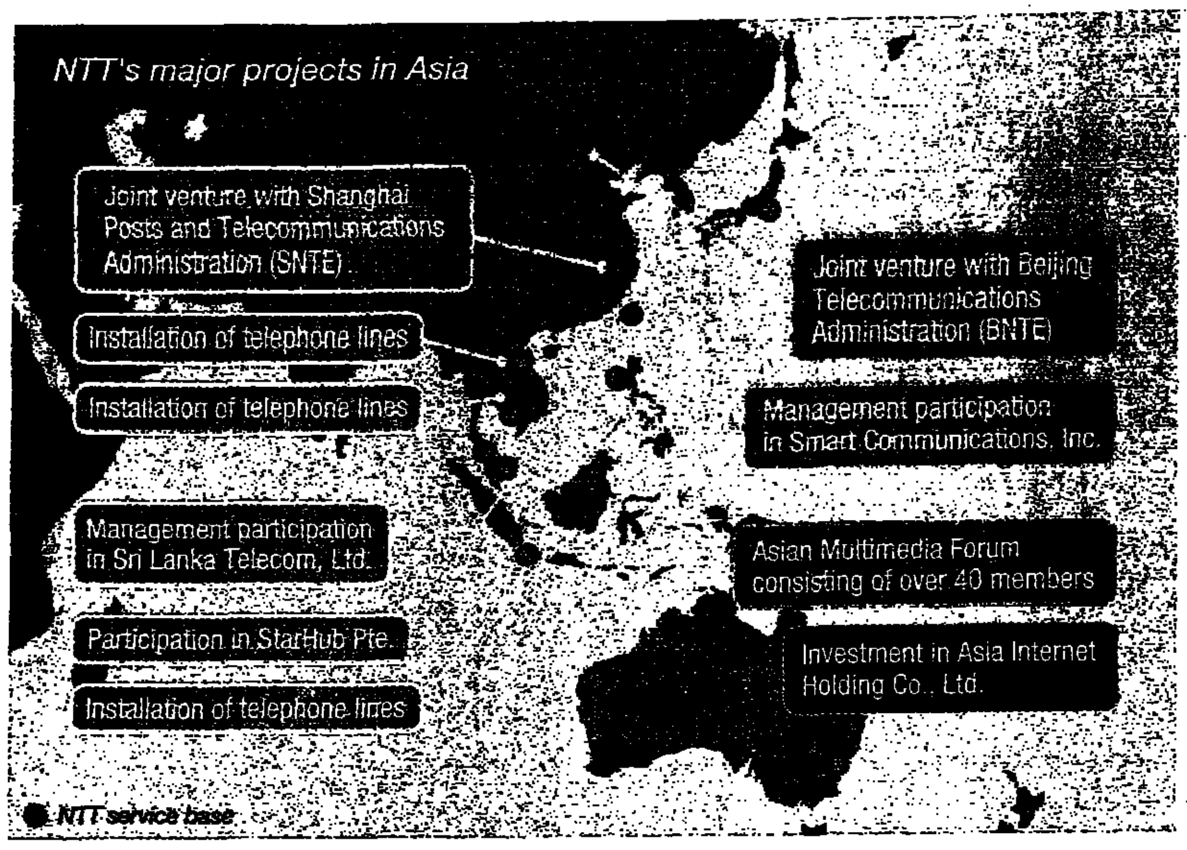
Infocommunications take hold in Asia

With much of Asia still struggling to recover from last year's economic crisis, the telecommunications industry is now seen as having a key role to play in the industrial restructuring that is needed to turn around the ongoing crisis. This has prompted many Asian countries to start the process of developing and deregulating their telecom markets.

As one of the leading players in the infocommunications industry, NTT (Nippon Telegraph and Telephone Corporation) continues to regard the region as a vital component of its global operations, and is now making moves to strengthen the financial and risk management activities for its projects throughout Asia.

The NTT group is currently stepping up its investments in Asia, in tandem with the expansion of its global services, provided under its Arcstar brand name. Working within the framework of each country's respective regulations, it aims to increase its participation in the management of other international carriers, while expanding its connectivity — through, for example, interconnection arrangements with individual carriers around the region.

NTT is also developing new multimedia markets, one example being the ATM (asynchronous transfer mode) international interconnection tests that are currently in progress between Japan and Hong Kong, Thailand, Indonesia and Malaysia under the aegis of the Asian Multimedia Forum (AMF).



Arcstar creating a new standard for global infocommunications

Arcstar, the name chosen by NTT for its global end-to-end communications services, now provides cutting-edge network services, especially in Global ATM. NTT's world-leading ATM technology allows multimedia communications of 120Mbps.

In the United States, a leading vendor has chosen an Arcstar global ATM service to support the creation of a Pacific Rim ATM network. Other basic network services include a 24-hour managed bandwidth with 16kbps to 45Mbps capacity that combines communication speed with the availability of connecting points around the clock.

NTT's managed frame relay service ensures economical performance and its global enhanced business network (EBN) service provides secured fixed networking at low cost. The IP backbone service supports the setting up of compact, economical virtual private networks (VPN), while NTT's fax service provides high-quality fax-to-fax, e-mail-to-fax and fax-to-e-mail operations, all at highly affordable rates. Through its one-stop global network and system integration, NTT — under the Arcstar banner — is providing the support needed for the development of the infocommunications industry throughout Asia.

AMF: bringing a multimedia project to fruition

NTT President Jun-ichiro Miyazu addresses a gathering of the Asian Multimedia Forum (AMF)

Set up in June 1997, the AMF was created by leading companies working in the infocommunications arena to promote the development of multimedia applications and services. The 40 participating companies, as of June 1998, include carriers, vendors and trading firms, most of them based in the Asia-Pacific region but also drawn from the United States and Europe. In addition to the ATM interconnection tests, the AMF is conducting various other international multimedia projects, such as satellite infrastructure verification trials. Since its inception, NTT has served as the organisation's secretariat.

A global presence through joint ventures and partnerships

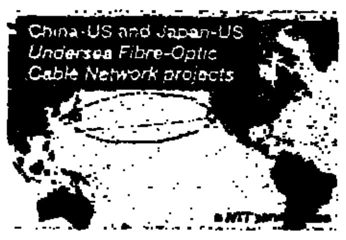
NTT recently established two joint ventures in China: Beijing Telecom NTT Engineering (BNTE), together with the Beijing Telecommunications Administration; and Shanghai NTT Telecommunications Engineering (SNTE), with the Shanghai Posts and Telecommunications Administration. Arcstar is assisting both of these initiatives in the provision of global system integration services.

The group's management participation includes Sri Lanka Telecom; Asia Internet Holding, which provides Internet connection services in the Asia-Pacific region through its Internet backbone; and Smart Communications in the Philippines, which offers operational and technological support for local public telephone services.

Service licences were recently awarded in Singapore to the StarHub consortium, which consists of NTT, Singapore Technologies Telemedia, Singapore Power and BT. Plans call for public basic telecommunication and public cellular mobile telephone services, which are scheduled to start from April 2000.

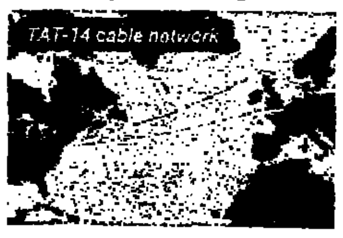
Furthermore, NTT has signed contracts with individual telecommunications authorities and local carriers to establish several million new telephone lines around Asia.

Linking Asia, America and Europe via submarine cables



NTT is also actively participating in three intercontinental cable network projects. The China-US undersea fibre-optic cable network is scheduled to go into operation at the end of 1999, to meet the growing demand for international telecommunications services in the Pan-Pacific region, including Japan, the United States, China, Korea and Taiwan. The Japan-US submarine cable network, which is due to start operations in the second quarter of 2000, will connect Japan with the US mainland via Hawaii. And to meet the increasing demand for multimedia traffic on the Japan-Europe and Japan-US routes, the planned TAT-14 Cable Network will connect the US mainland with the UK, France, the Netherlands, Germany and Denmark, with services starting in the fourth quarter of 2000.

In the United States, NTT has made inroads in a number of areas of the communications industry. In 1994, NTT assumed a management role in NEXTEL, a move that supports its mobile communication business. In September 1997, NTT acquired 10.5% of Teligent, thereby improving its wireless local access business, and more recently invested in Verio at a level that allows management participation in the provision of global and domestic US IP services. NTT has also opened numerous offices in Europe and Latin America, to support a variety of businesses operating in these regions.



INSIDE TRACK

PROFILE: THOMAS MIDDELHOFF

Publisher with his eye on cyberspace

Bertelsmann's new chairman predicts radical changes, says **Frederick Studemann**

Gütersloh, the sleepy Westphalian headquarters of the Bertelsmann media empire, seems to belong to another age. Culturally and geographically it is far removed from the buzzing media centres of the modern world.

Yet during the past year, Europe's biggest media group (the world's third-largest) has placed the prim German town squarely on the publishing map.

The acquisition of Random House, the US publisher, for $1.4bn (£722m), strengthened Bertelsmann's position as the world's leading publisher of books in English. The German company already owns Bantam Doubleday Dell in the US, and the combined operation will have estimated sales of $1.9bn, or one-tenth of the US market.

Bertelsmann has also taken a stake in *barnesandnoble.com* in the US and set up *booksonline* in Europe, both internet bookshops, and is a partner in AOL Europe, a joint venture with America Online of the US.

The man who – against the wishes of fellow board members – took Bertelsmann into the world of online services is Thomas Middelhoff, Bertelsmann's 45-year-old new chairman.

Mr Middelhoff's preference for dark suits and a fondness for cigars might suggest a conservative approach to business. But the way his eyes positively sparkle when he turns to electronic commerce, or the "digitalisation of content delivery", betray an openness to ideas and a determination to put them into practice.

Mr Middelhoff clearly believes the future of publishing lies as much in cyberspace as in print. It was his understanding of information technology – he wrote his doctoral thesis on an online services company – which was an important factor in his appointment as chairman last month.

With electronic and "new" media set to account for half the group's sales by 2000, Mr Middelhoff was seen as the right man to carry Bertelsmann into the next century.

It will be a journey into uncharted territory, and not only because electronic media products appear light years away from the book clubs that were once the cornerstone of Bertelsmann's business. Moving into the electronic age, Mr Middelhoff admits, will involve radical changes in management.

At times, one might be forgiven for thinking Mr Middelhoff would be happier running one of the internet start-ups he so obviously admires. Managing a group with annual sales of nearly DM26bn (£9bn) and interests that range from book publishing to pay television to internet telephone services, has its frustrations, he says.

There are, for example, bureaucratic hindrances in trying to get Bertelsmann to adapt to new technology: "We discuss who is responsible while other start-ups get out and do it."

Changing the way things are done is a priority for the chairman. "The internet will grow across our product line," he says. "We need to educate top executives to understand new technology."

'The internet will grow across our product line. We need to educate top executives'

The internet, he says, offers obvious opportunities for Bertelsmann, but it will be a challenge to reconcile the co-ordination demanded by technology with a culture of decentralisation.

Bertelsmann's empire is divided into 300 "profit centres", a form of organisation which allows managers more independence in the way they run their businesses. But decentralisation also has its drawbacks. Various parts of the group have not always worked at cross-purposes. How do you explain the fact that Stern, the flagship magazine of Gruner und Jahr, Bertelsmann's magazine and newspaper division, offered readers a CD-Rom for free internet access from an AOL rival, when Bertelsmann is a partner in AOL Europe?

Mr Middelhoff hopes the internet will weave the group closer together. It is already making a deep impact at Bertelsmann. Through its stake in AOL Europe, the German group is directly plugged into the internet.

He sees certain parts of Bertelsmann's traditional print-based operations moving over almost completely to the internet. An example is the group's professional publishing activities, which were bolstered last month with the acquisition of Springer Verlag, a German scientific publisher.

In general book publishing, Mr Middelhoff sees technology making more of an impact by way of electronic purchasing, though he does not rule out a market for digital content delivery.

Like many media executives, he thinks content is paramount: "If you have a strong backlist, then you have a strong future." The drive for content was what led Bertelsmann to buy Random House this year, a deal engineered by Mr Middelhoff during his one-year sojourn in New York.

He ran up horrendous travel bills while commuting by Concorde, sometimes weekly, between Manhattan and Gütersloh. It was also in New York – where he moved last year to improve his (now excellent) English and prepare for the chairmanship – that Mr Middelhoff suffered a big shock.

He was dismayed to discover how little Bertelsmann was known outside its home country. While people might have been aware of individual Bertelsmann units, such as Doubleday or the RCA music business, hardly anyone had heard of the group. "When I told them Bertelsmann was the third biggest media group in the world, they looked at me as if I was crazy," he says.

He is determined to build a strong "brand recognition" for Bertelsmann.

With more than two-thirds of sales now coming from outside Germany, in a business characterised by heavily branded titans such as Disney, Time-Warner or News Corporation, Mr Middelhoff insists that it is essential for the company to project a more global image.

"We have to make clear what the corporate brand means, otherwise we can't hire the best talent from business schools," he says.

Essential Guide to Thomas Middelhoff

Born: Düsseldorf, May 1953.

Education: Business studies degree from the University of Münster followed by doctorate in 1986 for a dissertation on information technology and media.

Business background: The son of a Westphalian textile manufacturer, Mr Middelhoff got his first taste of business working for the family firm. It was formative. The German textile industry woke up late to the threat from lower-cost competition from south-east Asia and Mr Middelhoff was charged with moving manufacturing operations away from Westphalia. That taught him the "need to act and take hard decisions in time".

Bertelsmann: Mr Middelhoff made his first contact with Bertelsmann as a student and was appointed assistant to the board of Mohndruck, a Bertelsmann printing subsidiary, when he completed his doctorate in 1986. The appointment, which involves duties that range from being a glorified bag-carrier to influential confidante, is a popular starting point for many of Germany's young executives.

For Mr Middelhoff the position quickly led to being appointed head of Elsnerdruck, a loss-making printing company based in west Berlin.

In 1994, only eight years after joining Bertelsmann, Mr Middelhoff was appointed group board member with responsibility for strategic planning and new media activities. He made his first important move a year later when he persuaded the board to take a stake in America Online and build up AOL Europe. In 1997 he was appointed chairman-designate and officially took over from Mark Wössner, who now chairs the supervisory board, on November 1 1998.

Family man: Married with five children, Mr Middelhoff lives in a suburb of Bielefeld where the family keeps a collection of peacocks, dogs, cats and horses.

INFORMATION TECHNOLOGY SCANNERS

Putting the zip into data

Victor Mallet looks at an alternative application for barcode scanners

South Africa's first democratic election in 1994 was the culmination of a miraculously peaceful move from apartheid to majority rule, but the voting process itself was chaotic and marred by fraud. For the next election in mid-1999, the Independent Electoral Commission has turned to new technology to compile a voters' roll of all citizens and to ensure a fair and efficient poll.

Deployed in the front line of the struggle to register voters is a device known in South Africa as a "zip-zip machine" – that is, in information technology jargon, a programmable barcode scanning unit.

The South African subsidiary of ICL, ICL SA, won a R60m contract from the commission to supply 25,000 machines for the registration of voters and for the election itself.

The technology is not new, but the application is: ICL SA put together a barcode scanner like those used at supermarket checkouts with a printer from the type of "card-swipe" device that reads credit cards at shops and restaurants.

South Africans are supposed to have new, barcoded identity documents. At registration centres around the country, the machines read the barcodes and produce printed, barcoded stickers that are put in the ID books to prove that people have registered to vote. At the end of each day, the information from the "zip-zip" devices is loaded onto computers for transmission to a central database.

"We identified a low-cost solution to the problem of registering people from their ID books," says John Jones, managing director of ICL SA. "It's all standard componentry but we modified one of our existing designs. I think this is the first time this sort of technology has been used for [voter] registration."

Taken as read: the scanners should ease the registration process

The registration process has been fraught, with difficulties that have included bureaucratic bungling, swollen rivers, illiterate voters and the failure of officials to show up at registration centres. In the eastern Cape, one of the commission's vehicles was hijacked.

ICL's machines, made by subcontractors, have not escaped criticism, but both the commission and the company say that most problems can be traced to human error, especially in places where untrained people – including soldiers – have been drafted in to staff registration centres at the last minute.

"You've got the human element creeping in because they are dependent on batteries," says Victor Dlamini, spokesman for the commission. The rechargeable batteries must be properly discharged and charged again for them to last the day. Without that, says Mr Dlamini, "you find you've got a dismal performance", but in the hands of trained users "it works like a charm".

ICL SA says the battery-operated barcode scanners are proving invaluable. Mr Jones says less than 30 of the 25,000 units have been returned, and not all of those have turned out to be faulty. "The actual failure rate of the units has been incredibly low."

LUCY KELLAWAY

Tippling your way to the top

It's better that the board tackles an executive's heavy-drinking habit before it becomes a company problem

"I thought you might be interested to know," said an unfamiliar, rasping voice on my answer machine, "that Mr XXXX is an alcoholic."

Given that Mr XXXX is a respected executive at one of Britain's best-known companies, and given that he has just been promoted into an important new job, I *was* interested, and decided to make inquiries.

Oh yes, said everyone. Mr XXXX is well known to be an alcoholic. Everyone knows; just no one says.

Wonderful, I thought. This is yet another example of the unfairness of corporate life. If you are towards the bottom of an organisation and you are found to have a drink problem you are likely to be fired, or at least disciplined. But if you are towards the top you can expect to be promoted and everyone around you will conspire to keep your little problem a secret. (Everyone, that is, except the odd rival who may leave messages on journalists' phones.)

But then I thought: so what if Mr XXXX does like a drop? Does it matter if our businesses are run by alcoholics? What is an alcoholic anyway? The best definition I have come across is that an alcoholic is anyone who drinks more than you do – ie: the term is subjective, to say the least.

Obviously we care if the boss is drunk at work. We care if they do silly things or their judgments are at fault. But many people have the capacity to drink extraordinary amounts and still do a more than acceptable job. Take Winston Churchill. He drank to excess and still got one over Adolf Hitler, who was teetotal.

If Mr XXXX is in the Winston Churchill category then I can't see that his drinking habit necessarily disqualifies him from the job in hand. It may be bad for his liver and his family, it may kill him in the end, but for the time being he still may be better at the job than the next best person.

However, the drinking habits of a chief executive are something the rest of the board needs to keep an eye on with a view to stepping in should things start to deteriorate. For that is the problem with booze: you may be controlling it this year, but it may be controlling you next.

One way of dealing with alcoholic executives was practised by John D. Rockefeller. His heir apparent, John Archbold, was a natural for the job in every respect, save his love for the bottle. So Rockefeller got him to sign a temperance pledge, and Archbold succeeded both in keeping off the booze and in making a good job of running Standard Oil.

Temperance pledges not being the thing these days, modern boards struggle with the problem, and on the whole tend to shelve it until it is too late. Consider the case of Union Pacific. By the time fellow directors told CEO Drew Lewis to dry out or get out the problem was already very serious.

Wall Street did not take kindly to being without him while he was in the clinic. Even when he was back in the job there were incidents, such as his being stopped by the police driving up the wrong side of the motorway after having had a glass or two.

The lesson is that boards have to be swift, tough, and open about the problem before it becomes one. If Mr XXXX does indeed drink a lot, that in itself may not matter. If the board has not discussed the matter with him, that could matter very much indeed.

* * *

It was only a matter of time before the unisex loos in the kooky TV show *Ally McBeal* started to catch on in real life. And now it has happened. Yarde Metals, a privately owned company in Connecticut, is building a six stall unisex "restroom" into its new office building. The company founder has told the Boston Globe that unisex loos are essential to a company that takes equality seriously. After all, it is not fair to exclude one sex from the office gossip and politics of the other.

That's all very well. But precious little gossiping and scheming seems to go on in the loos. The reason: you do not know who is in the cubicle next door. At least you can now gossip about a person if they happen to be of the opposite sex; the effect of unisex loos will not be to include everyone in restroom gossip but to stamp it out altogether.

* * *

I recently wrote about the pitfalls of using management tools at home; a reader has sent me another example: the tragic story of the man who tried to *kaizen* his kitchen.

A US executive who was a leading proponent of Japanese lean production techniques decided to apply the same principles to his kitchen, his bathroom and to the running of his house. On the face of it, this is a good idea – most people's homes offer plenty of scope for efficiency gains. But it ended in tears. The constant upheavals and blitzes turned the home into a restless place where there was no longer any certainty as to the toaster's whereabouts.

His wife valiantly put up with it for two years, but became so exhausted at having to strip down her day to actions which "added value", that she did the only thing left to her and divorced him.

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MANAGEMENT JARGON COMPETITION

Winning ways with dire prose

Diane Summers on the choicest of this year's gobbledegook entries

Two consultants and a software developer are the supreme winners of this year's Financial Times-Management Consultancies Association business jargon competition.

Emerging at the top of a heap of 100 entries of exemplary awfulness from around the world are: Arthur D. Little, PolyDoc, and Manhattan Associates. The three people (they opted for anonymity) who submitted the extracts, right, each receive £500.

The challenge to readers was to examine their in-trays, bookshelves, drawers and waste-paper bins for the choicest examples of gobbledegook, wilfully contorted prose and business jargon.

We said entries could come from, for example, internal reports, published books, brochures and promotional material – the only condition was that the offending material had to have been written during the previous year.

All types of organisations and professional advisers – management consultants, lawyers, accountants, bankers and business gurus – were fair game.

All three winners hold equal first position: the judges felt each of these entries had ghastly qualities of similar merit. The extract from consultants Arthur D. Little must take the prize for the sheer number of buzzwords per printed inch.

For example, note the virtuosity of "energizing a seamless innovation process from concept to market – deriving its energy from both high-value product pipelines and robust technology pipelines".

Tom Sommerlatte, one of the authors, admits that the extract, from Prism, the firm's journal, might look "dense and loaded" to the untutored eye. Fans of the prose should note that a full-length book is being worked on for publication in the spring – the Prism piece was a distillation, says Mr Sommerlatte.

PolyDoc, the second of our winners, is an Amsterdam-based company that describes itself as providing "business solutions for knowledge-rich and communication-intensive business processes". The winning extract comes from a "Production Lines for Knowledge Factories' White Paper" on the firm's website – *www.polydoc.com* for those wanting to see it in its full glory.

This entry's master-stroke is surely the final sentence: "Each action contributes to a part of the macro-functional as well as the macro-propositional (=content) model of the holistic process". Perhaps the meaning is immediately apparent to some readers: the judges entirely failed to unravel it, but their wits may have been dulled temporarily by their labours.

The third winner, US-based Manhattan Associates, might have qualified, like PolyDoc, by doing no more than defining its own activities. The firm describes itself as a "distribution center management system provider for the consumer supply chain".

The winning extract is a footnote to a press release announcing a link-up with Richter Systems.

In case you are wondering what Richter is, it has "provided integrated software application solutions to the retail, distribution and manufacturing markets," as well as offering "consulting services with unparalleled domain expertise and proven methodology".

The judges entirely failed to unravel it, but their wits may temporarily have been dulled by their labours

The judges fully accept that Americans are litigious – but why not simply say "whatever happens, it isn't our fault"? It would amount to just about the same thing.

Apart from the winners, a number of entries deserve honourable mentions. First among these is Whirlpool, the US white goods manufacturer, which narrowly escaped full-winner status.

It pleaded that an internal document produced by its European operation, entitled Whirlpool Leadership Declaration, was still at a draft stage. Perhaps it will improve.

Here is a flavour: "We vigorously and pervasively develop leadership... Whirlpool Leaders move organizations from the current to the future by creating visions that propel people into action... They build a fervor to solve problems... Leaders have an unyielding moral compass... More than anything Whirlpool Leaders create in everyone passion (fire) to fulfill the brand promise..." Remember, we are talking washing machines here.

One reader enterprisingly submitted the whole text of President Clinton's address to the nation in the wake of the Lewinsky affair. Was it business jargon? The judges were not sure, although they accepted the following bit was probably as tricky as any press release disclaimer: "As you know, in a deposition in January, I was asked questions about my relationship with Monica Lewinsky. While my answers were legally accurate, I did not volunteer information."

E-mail correspondence could probably have justified a category of its own. This response to a proposal seems to have have been copied around the European offices of one company: "We're on board with that over here. [Name] and [Name] are in lock step on the global research and we've made a point to the clients about feeding the results into what we execute on this side of the pond." Wasn't e-mail supposed to have made communication simpler?

Job advertisements yielded rich pickings. For example, one organisation, seeking its first executive director, began its ad: "The new Center will facilitate a universal and intersectorial interchange on challenging humanitarian issues in the context of societal change." The ideal candidate would be an "excellent communicator, preferably in several global languages," it continued. Just as well.

The judges were: Andrew Gowers, deputy editor FT; Alan Reid, UK head of finance and infrastructure KPMG and immediate past president, MCA; John Kay, director Said Business School, Oxford; Nigel Gilbert, pro vice-chancellor University of Surrey; Hugh Donaldson, chief executive Jarvis Porter; Katherine Morgan, senior editor Plain English Campaign; Bruce Petter, executive director MCA. Winners will be notified by the MCA.

The three winners

Arthur D. Little:

The key findings from our recent research can be clustered around what we have identified as six critical pathways to accelerated and sustainable high-value innovation and product/technology leadership.

Pathway 1. Infusing the passion and mindset for sustainable innovation across the extended enterprise

Pathway 2. Building an integrated strategic portfolio of projects, programs, platforms, competencies, sources and partners that is well aligned with the ambition-driven strategic intent of the enterprise

Pathway 3. Energizing a seamless innovation process from concept to market deriving its energy from both high-value product pipelines and robust technology pipelines

Pathway 4. Implementing a highly leveraged resource -deployment and investment system within the current budgeting process - accessing and deploying people, money and intellectual capital from the extended enterprise worldwide

Pathway 5. Developing a highly charged yet fluid and networked organization - harnessing, driving, and nurturing the inherent ambiguity and complexity of innovation

Pathway 6. Creating the motivators and metrics to stretch the organization beyond continuous improvement to sustainable innovation - particularly in the areas of leadership, value creation and capture, return on assets, and innovation behaviour

Towards Sustainable Innovation: A Progress Report. By Ron Jonash, Tom Sommerlatte and Arun N. Maira. Prism, Q3/98

Manhattan Associates

This press release may contain forward -looking statements relating to Manhattan Associates Inc and Richter Systems Inc. Among the important factors that cause actual results to differ materially from those indicated by such forward-looking statements are delays in product development, undetected software errors, competitive pressures, technical difficulties, market acceptance, availability of technical personnel, changes in customer requirements and general economic conditions.

Footnote to Manhattan Associates press release

PolyDoc

To understand the entire process in sufficient depth, PolyDoc analyses each single action or event as related structures within the architecture. The analysis looks at functional structures, semantic structures and linguistic form structures such as document classification, terminology, lexicon and language skills. Each action contributes to a part of the macro-functional as well as the macro-propositional (=content) model of the holistic process.

Production lines for knowledge factories. By Huub Rutten, PolyDoc

PAUL BETTS
FILE FROM MILAN

Life? It's just a game of lotto

The gap between Italy's north and south has closed in one sense at least. Both are on a roll as far as gambling is concerned

"Ciao Bello" – "hello handsome" – the half-Portuguese, half-Chinese tourist guide cheerfully greeted a group of jet-smacked Italian day trippers who had disembarked at Macau after a short boat journey from Hong Kong. "It's the only Italian I know," he said. "And I suppose," he continued in near-perfect Italian, "you all want to see our casinos".

These days the small Portuguese colony, which will return to China at the end of next year, is a sorry place. Ugly skyscrapers built by imprudent property speculators are either half finished or empty. They dominate the coastline and overwhelm what little has been preserved of the old colonial charm.

The mood is glum, far glummer than in neighbouring Hong Kong, and even the casinos are languishing. The Chinese, especially those from the former British colony, have traditionally been compulsive gamblers. However, they seem to have lost their appetite for Macau's gaming tables in their concern about the economic upheaval in Asia.

On the journey back to Hong Kong, one of the Chinese stewards on the jet-foil tried to sell lottery tickets and scratch cards with little success. But he excited an Italian television reporter who rushed up to interview him. *"Questo e bello"* – "this is great" – he told his companions. "They'll simply love this back home."

Now, what has Macau got to do with Italy? An awful lot is explained by recent trends that have seen Italians go gambling mad this year. Not just in the depressed south of the country where the lottery is a pastime older than the Republic itself, but also in the affluent north.

Since the Superenalotto was introduced this year, tobacconists and bars throughout the peninsula have been under siege from punters hoping to become instant multi-lira billionaires. Yet chances of winning the lotto jackpot in Italy are even harder than in Britain. Italian punters have to guess six correct numbers from one to 90 whereas in Britain gamblers have to choose from 50 numbers.

That has not put anybody off, nor stopped people from winning astronomical sums. Since the beginning of the year, Italians have bet nearly L4,000bn (£1.4bn) on the new super lotto game alone. The tax man has been laughing. In a country with a pathological aversion to paying taxes, the Treasury has so far raised L1,800bn from the super lotto.

Sisal, the company that runs the lotto, has made 51 multi-billionaires (always in lira, of course) this year. At the end of October a record L63.3bn jackpot was won by a group in the south. Last week, a L24bn jackpot was won in the north.

Giuseppe Imbucci, a professor of contemporary history at the University of Salerno and an expert on the sociology of gambling, has in a book, explored the phenomenon in Italy. Brought up in the poorer quarters of Naples, he explains how gambling there has traditionally been a matter of life and death

Even if people in southern Italy can hardly afford a loaf of bread, they will spend the little they have on the official lottery or illegal numbers games run by the well-organised Naples underworld. "You can live without bread but not without hope," says Prof Imbucci.

They turn to patron saints and fortune tellers in their quest for sudden wealth. They have traditionally spent more on gambling than their counterparts in the rich north. Interestingly when times are better, the amount they spend on gambling declines. When times are bad, the lotto does record business in the south.

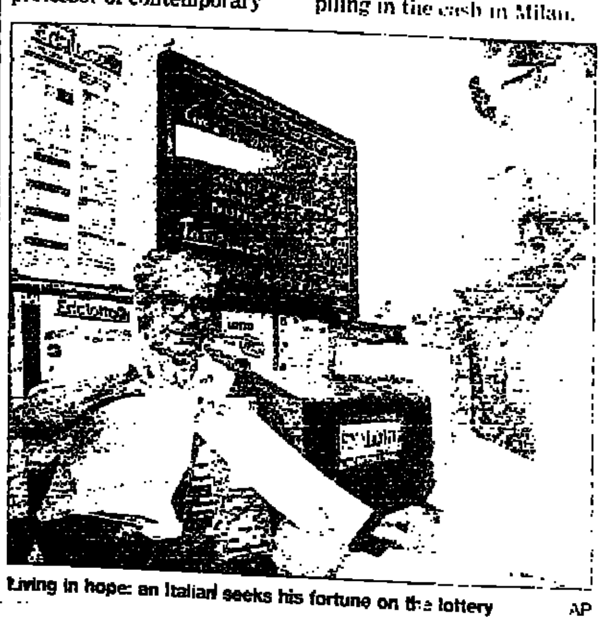
Using a wealth of statistics, Prof Imbucci shows that until recently northerners gambled essentially for fun. In good times, they would spend more of their disposable incomes on games of chance. In bad times, adhering to their traditionally cautious bourgeois ethics, northerners would stop frittering away money on the lotto. During the years of Italy's post-war economic miracle, the Milanese started gambling more than the Neapolitans. In the subsequent period of austerity, they stopped gambling while Neapolitans gambled more than ever.

Since the 1990s, the situation has changed dramatically. Now the Milanese rush to the tobacconist to fill in their lotto forms in increasing numbers, irrespective of the general economic climate. During the 1980s, a Milanese family only spent on average between 0.4-0.6 per cent of its household budget (excluding food) on gambling. Since the beginning of this decade, they have been gambling on average more than L600,000 a year or more than 2 per cent of their annual consumer expenditure, excluding food.

In the case of gambling at least, the traditional gap between the poor south and the rich north has been closed. This suggests that the malaise of the south has spread to the north whose inhabitants, still far better off than their southern compatriots, are now clearly more anxious about their future.

"You can't blame them losing their old Victorian values," said an elegantly dressed, middle-aged Milanese, queueing for his lotto form. "Look at Milan. It's dirty, depressed, full of immigrants and beggars, our governments still come and go. It's everybody for himself, and if I win I'll buy a flat in Lugano and move across the border to Switzerland," he added

That the Hong Kong Chinese seem to be behaving like the Milanese used to do – tightening their belts in uncertain times and avoiding the lure of the Macau casinos, suggests they still believe in a better future. Should they lose that hope then the roulette wheels of Macau are likely to spin again furiously – just as the lotto counters are now piling in the cash in Milan.



Living in hope: an Italian seeks his fortune on the lottery AP

TIM JACKSON
ON THE WEB

Surfing in the land of the free

An internet access service open to all has a lot of potential but building it up could prove to be a tough task

Kevin Kelly, one of the grand old men of Wired magazine, has coined a neat phrase by adapting a line from *All The President's Men*, the film of the Watergate story. Deep Throat, whispering in an underground car park, told the reporters to "follow the money". Kelly believes the equivalent advice on the internet is "follow the free". In short, services or products being given away free are often tomorrow's success stories.

The notion worked well initially with Netscape, which achieved its position in the browser market by giving away 9m copies of its software. Mirabilis, the Israeli start-up that built an instant-message software package, gave it away to 14m customers and was then, as a reward, bought by AOL for $287m (£173m). More broadly, web sites and service businesses that are free to users but supported by advertising are a dime a dozen.

But what about internet service provision (ISP) itself? Is it possible to give away dial-up internet access, while making money from it? That is the question raised by FreeServe, the free ISP launched in September by Dixons, the UK's leading electronics retailer.

In the US, free internet access has had only limited success. Juno, the company that pioneered it, has built a customer base of 6m people by offering basic e-mail access for free, while charging real money for web access and for the right to send e-mailed attachments. Outside the US, and particularly in European markets where consumers pay per minute for local calls, a wrinkle in the working of the telephone market makes full-scale web access for free at least theoretically possible.

When a subscriber of one phone company makes a local call to a subscriber of another, the receiving phone company collects an "interconnect" fee. To pay by the minute for local phone calls, part of the revenue stream is passed to the phone company serving the number that receives them. Thus an ISP receiving millions of minutes of incoming calls each month can force its phone company to offset this revenue against payments for modems and phone lines.

If the net cost of providing the basic connectivity can be brought close to zero, there is an opportunity to offer a free internet service supported by advertising. That appears to be the ambition behind FreeServe.

Two elements of the story are crucial. First, marketing is almost free, because Dixons can scatter sign-up CDs around its high street stores and put them inside the PCs it sells. Second, customer service is taken out of the cost calculation, because FreeServe customers pay £1 ($1.65) a minute for help when they have problems connecting.

Since its launch, FreeServe claims to have signed 475,000 people, and industry analysts expect its total subscriber base to pass that of AOL, the biggest ISP in Britain, by the end of 1998.

Subscriber numbers, however, are not the end of the story. Advertising revenues do not come from getting members to open accounts, but by bringing them back day after day to the same web page. FreeServe's customers get a browser automatically configured to show the FreeServe web site first. As customers learn they can change this setting, the company will have to make the content on its site increasingly compelling. This weakness is not suffered by proprietary services such as AOL, which have absolute control over what customers see.

But bringing in advertising revenue is a job in itself. AOL has taken three years to persuade mainstream advertisers to use it as a medium. FreeServe must either do this work itself, or give up a large piece of the margin by allowing a sales network such as DoubleClick to sell its inventory.

The service will also have to grapple with a third uncertainty: the network. Keeping sufficient capacity to provide adequate service at a time of extraordinary customer growth is a taxing task, even for the world's biggest ISPs, and all the harder when the FreeServe model is unusually sensitive to the costs of modems and phone lines.

So Dixons may have a tough time building FreeServe.

The consolation is that if it cannot make the service profitable, it will probably have the option of turning the venture into a paid-for service. Even if half or more of the users desert, those left might still provide a big enough customer base to sell at a handsome profit a year or two down the road.

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Tough competitors: Eric Allman, left, and Greg Olson are championing open source products

INFORMATION TECHNOLOGY OPEN SOURCE SOFTWARE

'Anarchists' take on the big boys

Roger Taylor on plans to commercialise Sendmail without destroying its roots

Open source software, one of the most revolutionary movements in the software industry, takes a step forward today with the launch of a series of commercial software products based on Sendmail.

Sendmail is the software used to deliver about 70 per cent of e-mail across the internet. Like much of the basic software used on the internet, it is open source, which means that the underlying code is published on the internet and can be downloaded, free, by anyone who wants it.

The open source model – in which hundreds of internet enthusiasts get software for free and in return make suggestions for improvements – has proved astonishingly successful at producing high-quality, stable programs. Last month an internal document leaked from Microsoft described how this process was capable of mustering creative resources which far exceeded those available to any software company.

The open source movement embodies the co-operative anarchistic spirit of the early internet and commands the fervent allegiance of enthusiasts such as Eric Allman, the inventor of Sendmail. Yet it has one great weakness – how to fight the huge marketing budgets of large software companies.

As the commercial world has adopted the internet, large software companies with proprietary systems have stepped in. Microsoft would like nothing more than to make its software the standard of internet e-mail.

It has one great weakness – how to fight the huge budgets of software groups

In response, Mr Allman and fellow software entrepreneur Greg Olson set up the company Sendmail in California this year. They aim to commercialise Sendmail without destroying its open source roots.

It might seem hard to sell something that is already free. But Mr Olson points out that businesses, most of which use Sendmail, distrust free software and are unhappy about the lack of guarantees and support.

By adding ease-of-use features, commercial licences and support, Sendmail believes it has created a sellable product. "Companies are willing to pay for these enhancements and they would feel better if they paid for them," Mr Olson says.

Sendmail presents a promising new model for combining the creativity of open source programs with the marketing skills of a commercial company. Many commercial buyers have been wary of even the most successful open source products, such as the Linux operating system, because they do not own and cannot take responsibility for the underlying program.

In contrast, Sendmail owns the rights to its program and can offer commercial licences on the business version, while continuing to manage the basic product as open source.

Mr Olson is aware of the need to keep both commercial customers and the "open source community" of enthusiasts happy. Nothing would gladden these enthusiasts more than to see a commercialised open source product fight off competition from the likes of Microsoft.

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BUSINESS TRAVEL HOTEL STANDARDS

When an inspector calls

'Mystery shoppers' are used to identify troublespots and motivate staff, says **Gillian Upton**

Fawlt-finding mission: the more deluxe the property the more nit-picking the inspection BBC

During a hotel stay, have you waited more than three rings before the phone was picked up, not been referred to by name, found hairs in the bath or failed to receive a message?

If you're paying more than £250 a night, these lapses are serious. A hotel's safety valve is staff training and, failing this, customer complaints. A third check is the annual and anonymous visit by the hotel inspector. The inspector's report is then used as a training exercise for all staff.

Hotels also use the services of a so-called "mystery shopper", usually a hotel colleague, to come and stay. In these ways, staff and management correct problems before guests experience them.

"Using the services of an inspector is a motivator. We wouldn't want to come in on a score lower than the previous year," says Brian Hladnik, deputy managing director of the five-star Landmark Hotel in London.

At the three-star Jarvis Hotels group, staff know that disgruntled guests have a hotline to the chairman from their bedroom and attend focus groups throughout the year.

All hotels have their reputation to maintain but deluxe hotels, in particular, have to justify their rates. The more deluxe the property the more nit-picking the inspection.

Inspectors checking any of Preferred Hotels, a marketing association of 125 deluxe hotels in 25 countries, answer 1,600 questions on each hotel during a two-day, anonymous stay. These generate 5,000 plus points. If a hotel fails the inspection in two categories – service and condition of the building – it goes on six months' trial, at the end of which is a second inspection. A second failure means a quick exit from Preferred.

"We look at things most people don't even think of," claims Peter Cass, president and chief executive of Preferred Hotels. "We believe our inspection is the toughest in the industry."

Preferred uses an outside audit company, whose inspectors reveal their true identity only after check-out. A debriefing with the hotel's general manager and senior staff follows.

David Smith, (not his real name) is an inspector. A former general manager of a luxury London hotel, he travels the US and Asia, for 12 days each month, inspecting three, four and five-star hotels, never using the same hotel twice.

"It should be a pleasure but it's difficult to relax and enjoy the luxury," he concedes. The room check forms the smallest part of the inspection and work begins as soon as he enters the hotel entrance. The check-in procedure alone generates 100 questions. The concierge is another obvious target. Popular with business travellers, variable in quality and too often gratuity-dependent, the concierge desk will be asked by Mr Smith for anything from an aspirin at an odd time of day to requesting a notary to sign a legal document after offices have closed.

"Four years ago concierges weren't that good," says Mr Smith. "Today, they're having to provide a full service, not just theatre tickets, and must not expect a gratuity." Demand has forced hotels to double staffing levels, extend working hours and make them more proactive.

Mr Smith also samples the restaurants and bars for over-attentive, intrusive service, doesn't tip staff occasionally to check for scowls and orders room service to see whether staff are helpful in suggesting what to drink with the food order and how long it takes to arrive. He checks whether a message arrives under the door within 20 minutes and the cleanliness of the food trolley when it arrives with breakfast.

'It should be a pleasure but it's difficult to relax and enjoy the luxury'

There are 165 questions in the bathroom and bedroom, which means a 45-minute check for debris under the bed, stains on a valance, dusty curtains, dirty or difficult to use phones, a hunt for the hairdryer, empty minibar, hair-strewn pillows, old towels and any plumbing problems.

"I'm a lot less friendly in terms of cleanliness in the bathroom," says Mr Smith, "It's a 'No' for a hair in the tub, the water has to be instant, the shower easy to use.

"At the end of the day, though, it depends on whether you get your faxes and messages," believes Mr Smith. "Is the message under the door within 20 minutes and is the message light illuminated on your phone?"

The criteria is more relaxed in a resort property and standards vary globally due to cultural differences. In America, housekeeping staff are trained to make eye contact with guests; in Asia that would be discourteous. Mr Smith still finds service in French hotels grudging and much better in Germany.

Off duty, Mr Smith's preference is to stay in a mid-range hotel which is achieving something special and pay rather less than £250 a night.

TRAVEL UPDATE

Rewarding times for frequent flyers

The power of loyalty programmes to lock travellers into particular brands means there can be some good deals around, particularly during the quiet months, *writes Gillian Upton*.

Hotel loyalty programmes can sway travellers from one hotel group to another and these schemes, as well as the airline equivalents, have turned travellers into mileage junkies.

From this month Hyatt, the deluxe hotel group, is offering its Gold Passport members up to three free weekend nights without having to give back or redeem any points accrued.

To qualify travellers must stay at any of Hyatt's 180 hotel or resort properties around the world before February 28. It is the hotel group's quietest time, which explains its generosity.

If travellers do not want to earn a free weekend, bonus miles or air miles can be taken instead. The promotion is called Nights after Nights and membership can be attained instantly.

A minimum two-night stay will be rewarded with 50 per cent off a weekend night; four nights will trigger one free weekend night or 2,000 bonus miles (or 200 air miles if you're a British Airways executive club member); a six-night stay rewards you with two free weekend nights or plus 4,000 bonus miles (or 400 air miles). Finally, a stay of eight nights will earn three free weekend nights or plus 6,000 bonus miles (or 600 air miles).

Most schemes reward travellers for dollars spent on the hotel room, food, drink and incidental expenses such as laundry, phone calls and in-room movies.

Converting hotel points to airline miles has recently become extremely popular and most hotel loyalty programmes allow this.

It is worth checking for any blackout dates, usually at times such as Christmas and Easter. Some hotels add a premium for these periods.

IN BRIEF

Budapest air terminals switch

International airlines will switch terminals in Budapest next week as the city's airport completes a revamp. An expanded Terminal 2 is due to open next Monday, months later than expected. It will be able to cope with up to 5.5m passengers a year – more than double the present 2m.

Terminal 1, which handles 1.5m travellers, will then be used only for general aviation, such as corporate jets, courier services and government flights.

Carriers moving to the expanded terminal include Hungary's Malev, British Airways, SAS, Lufthansa, Swissair, KLM, LOT and Aeroflot.

Driving advantage

Car hire prices could fall significantly with the introduction of the euro, Europcar forecasts. The rental firm promises to pass on currency exchange savings averaging 5 per cent to its customers. Rates could also be depressed as corporate clients will be able to negotiate deals on an EU-wide basis.

This may make it easier for travel buyers to play one car hire company against another. Europcar, owned jointly by Volkswagen and the Accor hotel group, will offer deals in euros from January 1. It believes the single currency will expand the \$6bn (£3.7bn) European car rental market by \$300m.

Meanwhile, Lloyds Bank Commercial Service has used existing exchange rates to compare weekly rental prices offered by one leading rental company in euros. The cost of a Vauxhall Astra or a similar car in Vienna (511 euros) is more than double that in Berlin (188 euros). Between those two come Paris (241 euros), Madrid (275 euros), Milan (328 euros) and Helsinki (464 euros).

Asian improvement

European airlines saw a slight recovery in traffic on Asian routes in October. Although business still lagged behind other areas, passenger numbers rose by 5.4 per cent. Despite fears of a deepening economic downturn, aircraft operated by members of the Association of European Airlines recorded an average load factor of 75.3 per cent – the proportion of seats occupied – was the highest on record for the month.

Barbados boom

British Airways has launched its winter Saturday Concorde service from London to Barbados, *writes Kate Bevan*.

For those really short of time and desperate for sunshine, you can squeeze in a brief day trip: the flight leaves Heathrow at 9.30am, arriving in Barbados at 9.45am, leaving two hours for a rum punch before Concorde departs for London at 11.45am. In February BA will launch a weekend Concorde from New York's JFK to Barbados, initially for three weeks. Those paying the full fare from London will part with £6,118, but several tour operators have cheaper options.

LA/Paris route

American Airlines will launch a daily non-stop service between Los Angeles and Paris Orly next June. Flights from the US will leave at 3.30pm and arrive at 11.45am the next day. Services from France will leave at 1pm, reaching LA at 10am.

Ryanair reversal

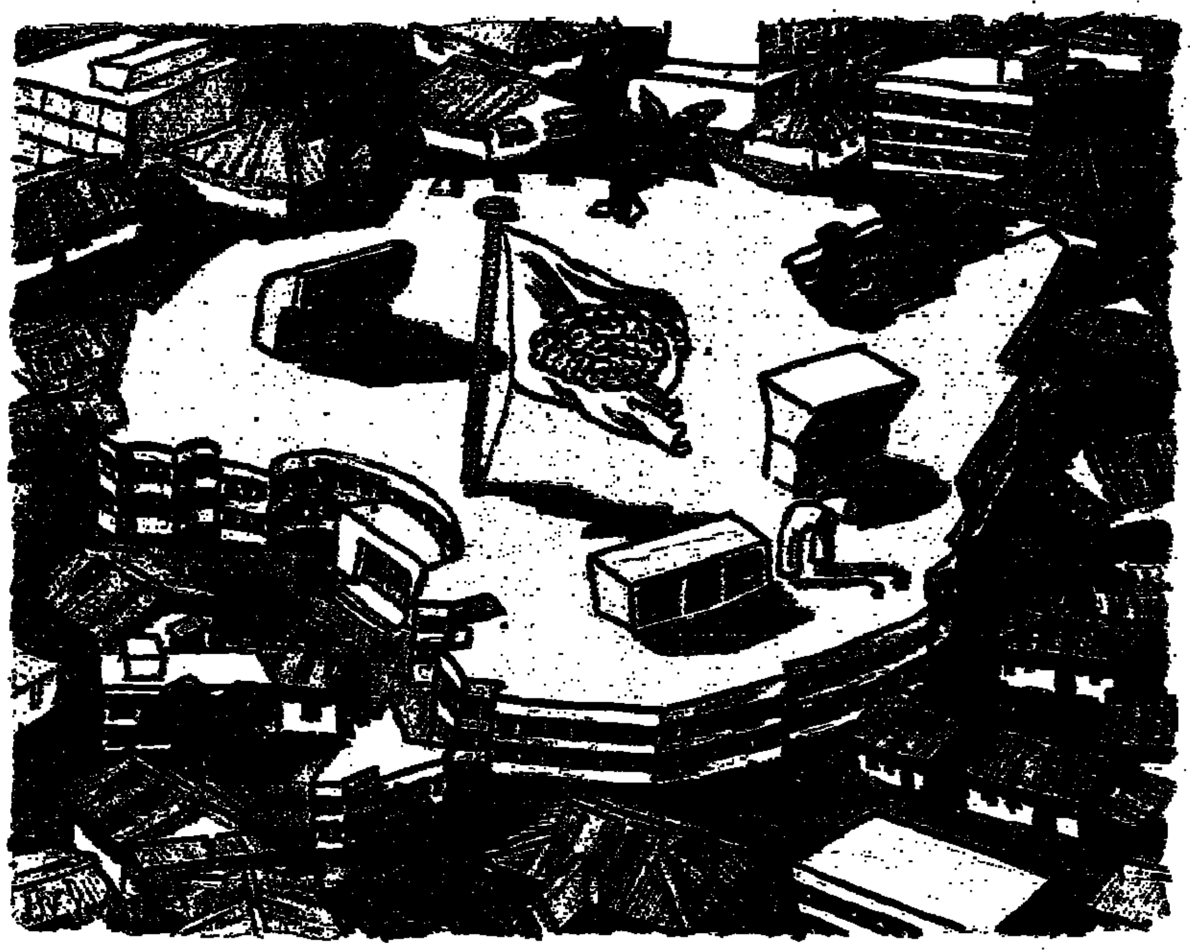
Low-cost airline Ryanair claims it has scrapped plans for new flights to at least five cities from Dublin because of a dispute over airport charges. It wanted to fly to Norway, Sweden, Italy, the South of France and Germany but complains that landing fees in Dublin are too high. Aer Rianta, which runs the airport, describes the claim as "nonsense".

Roger Bray

BUSINESS EDUCATION ASIA

Australia exports its standards

Regional demand for training has survived economic turmoil, writes **Gwen Robinson**



Asian demand for international financial training has survived regional economic turmoil. And in Malaysia it has generated an innovative Australian-Malaysian joint venture to establish an institute offering diploma courses to the local market.

The new venture sees no shortage of students willing to pay for international standard qualifications. But the Malaysian government's recent imposition of tough new financial regulations presents an extra challenge.

The Securities Institute of Australia, an industry body and Australia's biggest provider of financial education, and Permodalan Nasional Bhd (PNB), Malaysian's largest fund manager, recently agreed to establish PNB Investment Institute in Kuala Lumpur. The new institute began last month with a range of practical training workshops in financial markets. From February, it will offer two full-time, two-year graduate and diploma courses in financial planning and applied finance and investment, as well as a range of part-time courses.

Australia would initially provide the "intellectual capital," including teachers and training materials, while PNB would provide management, financing and local market presence, said Wayne Lonergan, SIA's president.

The institute would be gradually "localised" over three to five years, with the eventual replacement of Australian teachers. All teachers, whether Australian or Malaysian, would be market practitioners in various financial fields, in keeping with the style of SIA's courses in Australia. Course structure and content as well as materials would be broadly similar to the SIA's Australian programmes, which cover most careers in finance and investment.

From the beginning, however, the Malaysian courses would be tailored where required to fit with local regulations, products and markets, said Mr Lonergan.

The venture is a significant step for Australia's steadily growing education export industry and highlights increasing demand in Asian markets for western or international-standard business and finance qualifications. The new demand can be seen in the sharp growth of Asian enrolments in Australian business schools, including Australian Graduate School of Management – the country's largest business school, where nearly half the full-time students and the majority of part-time were born abroad. It can also be seen in the increasing popularity in Asian countries of correspondence programmes run by western educational groups.

The Malaysian institute, which will be 51 per cent owned by PNB and 49 per cent by the Australian side, is SIA's first, formalised joint venture, said Mr Lonergan. There were hopes it would provide a model for further expansion in the Asian region through such partnerships, he added.

The deal is a financial and professional coup for SIA, given PNB's size – it controls about 15 per cent of Malaysian capital markets through its investments – and its owner, the Malaysian government. Australian-Malaysian relations have been through rocky periods in the last decade and some old strains were recently revived following Australian criticism of the arrest and detention of Malaysia's former deputy prime minister, Anwar Ibrahim.

'One has to be sensitive about local issues, both cultural and regulatory, and we're confident we can do that'

On the business front, Malaysia abruptly imposed capital controls and tough new regulations on foreign investors following recent financial turmoil. The new regulatory environment will undoubtedly present challenges for SIA, which aims to give all students internationally acceptable credentials.

"One has to be sensitive about local issues, both cultural and regulatory differences, and we're confident we can do that... it is not a major practical barrier. We're always adapting courses to take local issues into account, like local taxes, exchange controls and even cultural differences," said Mr Lonergan.

SIA, which was established in the early 1980s, was able to develop regional expertise and understanding through the increasing provision in the last decade of financial education and training courses to Asian financial institutions, companies and business groups, said Bill Warner, manager of international programmes.

The growing popularity of SIA's distance-learning programmes had also helped build the institute's regional presence, with more than 4,000 students now taking SIA diploma courses through correspondence.

But the push into Asia, particularly the Malaysian joint venture, stemmed from SIA's promotion of international programmes taught in-country. Up to now, these have been conducted on a short-term basis for commercial and central banks, business groups, regulators and stock exchanges throughout the region. Covering fields from stock exchange and funds management licensing to capital market development and portfolio management, these "customised" courses take SIA's Australian programmes and adapt them to local market conditions, said Mr Warner.

"What we are trying to do is offer courses of international standards, but which fit with local rules and regulations," he said.

Among its long list of clients, SIA has organised courses for Asian Development Bank, central banks in Fiji and Sri Lanka, Indonesian commercial banks and the stock exchanges of Malaysia, Mauritius and New Zealand.

The Malaysian venture will be closely watched by other western business and finance schools. For SIA, there will be an element of on-the-job learning, said Mr Warner.

The regional financial crisis had taken some of the momentum out of Asian markets, he acknowledged. But there were signs of continuing strong demand for high quality education. "We have a total of about 20,000 students in Australia. In Malaysia, we hope within a couple of years to have a similar number, but no one really knows what the market will be like."

The school will begin by offering about 22 courses, virtually the full range offered in Australia, from part-time courses in specific topics such as mortgage lending to the two-year, full-time graduate diploma course, which covers topics from financial analysis and economics to risk management, pension planning and securities industry law.

Student numbers are eventually expected to run into the thousands, although for the first year, numbers in the full-time courses have been restricted to a maximum of 50 in each of the two courses. Fees will be close to the level charged in Australia, ranging from about US$800 for short courses to US$2,500-$3,000 (£1,560-£1,880) for the two-year course.

NEWS FROM CAMPUS

Consultants go back to virtual school

The UK arm of management consultancy Ernst & Young is setting up a virtual business school with Henley Management College.

The pilot scheme, which will be available to all 850 consultants working for the firm in the UK, will focus on several main areas. As well as the distance learning degree programmes such as the MBA – Henley's bread and butter product – the pilot will involve a leadership development scheme and a research and innovation centre, where consultants from the firm and Henley staff will be able to contribute ideas on management development.

The virtual business school will be available to Ernst & Young staff in addition to the professional training they already receive as part of their day-to-day jobs, says John Kelly, managing partner with consultancy services at Ernst Young. He expects about half the firm's consultancy staff to take part in the pilot scheme.

Assuming the scheme is a success, Kelly believes it could be expanded to include other professional staff in the UK, such as those working in tax, corporate finance and auditing.

Ernst & Young: UK, 171 928 2000
Henley: www.henleymc.ac.uk

● German pharmaceuticals giant Hoechst has signed up Aston Business School in Birmingham to provide its employees with an MBA programme. Eighteen Hoescht managers, together with managers from two other companies, Travelex and business consultancy Heidrick & Struggles Mülder & Partner, will be taught their MBA in Germany and England. However, the course will be taught throughout in English.

As well as the more traditional teaching methods, the course participants will have access to video lectures and videoconferencing support.
Aston: UK, 121 359 3611

Hong Kong programme

The University of Hong Kong last week launched a Chinese Management Centre. The centre is intended to conduct research and training based on the challenges facing Chinese-led enterprises in the next century.

The centre has been established by John Child from Cambridge University, the former director of the European Community's management programme in Beijing.
Chinese Management Centre: www.hku.hk/business/centres/cmc

Waiting for the Renaissance

Is Asia about to experience a Renaissance? The folk at Insead believe so. On December 15 and 16 faculty from Insead's Euro-Asia centre, led by Henri-Claude de Bettignies, will conduct its annual forum in Singapore. The theme this year is *An Asian Renaissance: When and How*.
Insead: www.insead.fr

All the fun of the fair

The ninth annual MBA fair, organised by the UK's Association of MBAs, takes place in London on January 27 and 28. Prospective MBA students visiting the fair will be able to meet representatives from business schools in Europe, the US and Australia.
Association of MBAs: www.amba.org.uk

Information for News from Campus should be sent to Della Bradshaw,
The Financial Times, One Southwark Bridge, London SE1 9HL.
Tel. 44 171 873 4673 Fax 44 171 873 3950

OPENINGS

MANCHESTER
The Royal Exchange Theatre re-opens tomorrow after the bomb destruction that closed it two years ago. Its opening production is the show that it was about to show then: *Hindle Wakes*, by Stanley Houghton.

BONN
The Vatican's collection of masterpieces commissioned by popes and cardinals during the High Renaissance goes on display (right) at the Kunst-und Ausstellungshalle on Friday.

LONDON
Festive fare in the metropolis includes the following productions opening this week: the Birmingham Rep production of *The Snowman*, opening on Wednesday at Sadler's Wells, and a modern account of the pantomime *Cinderella* opening on Thursday at Stratford East's Theatre Royal. The Royal Opera's Christmas season at Sadler's Wells opens on Thursday with Francesca Zambello's new staging of *The Bartered Bride*, conducted by Bernard Haitink.

Those in quest of non-festive entertainment may fill with gratitude on two RSC productions opening at the Barbican this week: *The Merchant of Venice*, directed by Gregory Doran and featuring Philip Voss's stirring Shylock, opening in the main Barbican Theatre tomorrow; and *Shadows*, a trilogy of three Irish plays (J.M. Synge's *Riders to the Sea* and *The Shadow of the Glen*, W.B. Yeats's *Purgatory*), opening in the Pit on Wednesday.

BIRMINGHAM
Up in Birmingham the snowflakes are falling: Birmingham Royal Ballet is playing its excellent version of *The Nutcracker* at the Hippodrome, this week and next.

MILAN
The new season at La Scala begins tonight with *Götterdämmerung*, directed and designed by Yannis Kokkos and conducted by Riccardo Muti. Jane Eaglen is Brunnhilde.

NEW YORK
Over the next two weeks the New York Philharmonic celebrates the centenary of Gershwin's birth. In the opening concerts, at Avery Fisher Hall on Thursday evening and Friday morning, André Previn will play the Piano Concerto. Later on Friday Previn presides over a jazz event, and next week Bobby McFerrin will conduct concert performances of *Porgy and Bess*.

After its sell-out run at London's Donmar Warehouse, *The Blue Room*, starring Nicole Kidman and Iain Glen, opens at the Cort Theatre on Sunday. Adapted from Arthur Schnitzler's *La Ronde* by David Hare, the play is directed by Sam Mendes. Off-Broadway, Paul Rudnick's contemporary retelling of the Old Testament, *The Most Fabulous Story Ever Told*, opens at the New York Theatre Workshop on Thursday.

VIENNA
Starting tomorrow, the Kunstforum presents Austria's first-ever retrospective of Ernst Ludwig Kirchner (1880-1938). A parallel exhibition, from December 18 at the Austrian Gallery in Belvedere Palace, focuses on the Brücke (of which Kirchner was a member) and the Blaue Reiter.

LOS ANGELES
Fantastic Mr Fox, Tobias Picker's new opera based on the story by Roald Dahl, receives its world premiere on Wednesday at Dorothy Chandler Pavilion. Gerald Finley sings the title role, and the designs (left) are by Gerald Scarfe.

AMSTERDAM
The Rijksmuseum's show of sculptures by Adriaen de Vries (1556-1626), opening on Saturday, promises to be a highlight of the winter art calendar. Nearly 50 bronzes will be on display, including life-size fountain sculptures from Drottningholm Palace in Sweden.

'You've got to fall in love with the idiosyncratic. That's the richness that feeds us': Alison Chitty at work on 'The Bartered Bride' Brendan Corr

Texture married to the text

Andrew Clark talks to Alison Chitty about her designs for the Royal Opera's new 'Bartered Bride'

There's the Balls Pond Road school of theatre design, gifted but flippantly post-modern, which takes its name from the part of London where David Fielding, Antony McDonald and Tom Cairns used to congregate. There's the boldly costumed style favoured by Philip Prowse, Maria Bjornson and other Citizens Theatre alumni. There are painter-designers like Yolanda Sonnabend, craftsmen like John Gunter, wilder-than-craftsmen like William Dudley. And there's the European design mountain, where heavy concepts are more important than people.

And then there's Alison Chitty. She fits none of these groups – but she does follow a distinguished line of female designers in British theatre, whose concern is to let the performance speak, not the scenery. As with Jocelyn Herbert and Margaret Harris before her, Chitty is not interested in big statements, nor in anything purely decorative. Her sets are only finished when the actors walk on.

Unlike some female contemporaries, she has not let herself be sidelined into costume designing. She has done every kind of work, from community theatre at Stoke to *Tristan und Isolde* at Seattle, from *Antony and Cleopatra* at the National Theatre to Mike Leigh's film *Naked*. But she has never been one to take *any* job that's going, no matter how good the money: the quality of auteur is the one unbroken thread in her professional life.

So don't look for self-congratulatory scandal at an Alison Chitty show – least of all at *The Bartered Bride*, which opens the Royal Opera's Christmas season at Sadler's Wells on Thursday, in a new production directed by Francesca Zambello. And don't look for a Bohemian period replica, even though the idea of Czech folklore has inspired costumes, props and choreography. "In the end", says Chitty, "theatre is not about historical reconstruction. It's about something which is controlled and manipulated, in a way that helps us tell the story in the best possible manner. We may have worked on *The Bartered Bride* from the Czech point of view, but at the same time we've thrown it all up in the air and put it in a completely controlled palette: green, yellow and cream for the country and village scenes; purples, pinks and gold for the circus. It's a designer's dream."

Telling the story is a Chitty mantra. It's a quality particularly associated with English theatre, and specifically the Royal Court – though Chitty herself never worked there. It means a passion for the text, for writers, for narrative. Her apprenticeship with Peter Cheeseman in Stoke gave her eight years of working in the round. Then, at a design exhibition at London's Riverside Studios, her sketches for *The Tempest* caught the eye of Peter Gill, who snapped her up for his production of *Measure for Measure* starring Helen Mirren. It was Chitty's big break. She went with Gill to the National and became resident designer. Then she moved into opera, which brought out a bolder quality in her work.

But the principles remain the same – "making it the best I can for the performers to do their job. I believe in designing the play, the opera, the performance, not the scenery. It doesn't mean we have no scenery. Every producer in the world will tell you I love scenery and there's loads of it, especially when they try to cut it. Whatever decisions are made, they have to come out of the story. Bringing that to opera is terribly important."

The opera world seems to agree. *Khovanshchina*, which Chitty designed for English National Opera, won an Olivier award; *Billy Budd*, set on a bare platform surrounded by blue neon, was staged to great acclaim on both sides of the Atlantic.

'Theatre is not about historical reconstruction. It's about something which is controlled and manipulated in a way that helps us tell the story in the best possible manner'

Chitty, 50, now spends more time on opera than theatre. After *The Bartered Bride*, she goes to Munich for *Otello*. Then it's *Giulio Cesare* in Bordeaux, *Dialogues des Carmélites* in Santa Fe and *Aida* in Geneva.

She talks about the "different energies" of opera and spoken theatre – by which she means the production timetable. At the National she had to deliver a design-model 22 weeks before each show was due on stage. In opera, it's at least a year. Her designs for *Otello*, *Cesare* and *Carmélites* are already delivered, but each is at a different stage of production – and she needs to juggle them while seeing her latest project through. She started fitting the cast for *The Bartered Bride* three weeks before rehearsals, and will supervise every detail until curtain-up.

But surely opera demands a more opulent style than spoken theatre? True to her down-to-earth personality, Chitty is "not someone who believes it can only be beautiful if you have a lot of money. I've had a million reviews about how I've made beautifully austere grey boxes. If I have a style, I'm fascinated by restraint. When you're working with very little money, it can bring an immediacy, or a workshop feel, or a different kind of energy to a fully-staged production. There's a place for all of these. Whatever happens, making theatre is expensive."

And looking through Chitty's design book for *The Bartered Bride*, you can see what she means. Attached to each page, next to carefully crafted pencil drawings, are pieces of fabric she has chosen for each costume. The detail, the eye for colour, is extraordinary, and you suddenly realise how little you pick up from the other side of the footlights. Is this an argument for greater simplicity?

"Simpler *is* better. I spend a lot of time asking 'Do we really need it?' But if it's simple, it needs to be exquisite. When work is exposed, it needs finer tuning, finer painting, finer detail. There's something very elusive in designing for the theatre: whatever energy we get from working in a sketchbook, how do you capture that freedom in the finished product? You find yourself saying 'Well, it could be just like this...'. But how do you translate that to the stage? It has to be something you can build, that's safe, moveable, affordable and can change its requirements halfway through rehearsal."

It sounds like the kind of awkward problem Chitty's students might raise at the Motley Theatre Design School, where she is co-director. She says the answer lies in the way you draw ideas from the world around you. "I'm always telling the students – 'You've got to fall in love with the idiosyncratic'. That's the richness that feeds us. Theatre is about our world, and if you're alive to that, it feeds your work.

"Interior designers, industrial designers, architects, textile and fashion designers – they spend their lives making an end of design in itself. I'm in a different business, which is story-telling. But I can draw on their experience. Theatre designers are magpies: we need to express a certain thing at a certain moment. Our job is to ask which device, which surface, which space, which colour, which quality of light will help us do this best."

Getting away with murder

MUSICAL

IAN SHUTTLEWORTH

Chicago
Adelphi, London WC2

For me, Maria Friedman had long been the music-theatre equivalent of the Taj Mahal: I had heard nothing but rhapsodies about her and seen her many times in print and on screen, but never been able actually to visit her *in situ*. As of Wednesday, mine eyes have seen the glory. I cannot directly compare Friedman and her fellows to their predecessors in the principal roles of *Chicago*, but I can and do praise them with great praise.

My colleague Alastair Macaulay, reviewing Walter Bobbie and Ann Reinking's production of this Kander/Ebb/Bob Fosse musical on its West End opening, called it "repellent" and a "farrago". He is absolutely right: it is a morally odious tale celebrating women who get away with murder through bare-faced lying and manipulation of media and legal system alike, sung straight out from a bare stage whose only permanent prop is the orchestra slap-bang in the middle, and choreographed "in the style of Bob Fosse". Note that "in the style of" – the range of movements may be limited, yet where the recent failed revival of *Sweet Charity* recreated Fosse's choreography faithfully but passionlessly, Reinking recreates Fosse's characteristic... what's the word? Oh, let's be frank: she captures the *filth* of Fosse – down, dirty and intensely alluring.

As Velma Kelly, the eclipsed princess of Death Row, Nicola Hughes is more humanly proportioned than either Ute Lemper before her or many of the dancers around her... although, it has to be said, she will have her own eye out one of these days with those extraordinarily high kicks. In many another company the bold, brassy Hughes would dominate effortlessly. Here, though, she has visibly to toil to keep up with the apparently insouciant command of Friedman, taking over from Ruthie Henshall as her usurper, adulterous murderess Roxie Hart.

Although physically small, Friedman emits an immense aura that she is, quite simply, perfectly comfortable with who and where she is and what she is doing, be it swinging from a ladder or sitting on her attorney's lap like a ventriloquist's dummy. She has an exceptionally mobile face and range of fleeting expressions of self-consciousness which are beguiling rather than alienating; on a couple of occasions, her Roxie continues to nod her head along and snap her fingers after a number has finished. This is not a sinister, calculating Roxie who executes a masterplan with cold relish, but an enthusiastic, opportunistic one who seizes her chances and has warm, human fun in doing so.

Friedman – along with Clarke Peters, consummately suave as ever as attorney Billy Flynn –

Alastair Muir
Seductive: Maria Friedman

seduces us through the moral repugnance of the events related; within the course of her first number, I had even forgotten that I find her vibrato on the heavy side and had simply settled, entranced, into her performance. Peter Davison, making his first appearance in a musical as Roxie's nebbish husband Amos, perhaps takes the injunction to blandness a little too far – although, to be fair, next to Friedman the National Grid might seem lacking in sparks.

Chicago is a show which celebrates everything that, during the daytime, we find deplorable about sensationalism, mendacity and superficiality. It is also far and away the most fun you are likely to have at a current London musical.

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Queen of Spades: by Tchaikovsky. Conducted by Semyon Bychkov in a new staging by Lev Dodin. An international co-production that will travel to Florence and Rome; Dec 8, 11

BARCELONA

EXHIBITION
Museu Picasso
Tel: 34-3-319 6310
Picasso - Engravings 1900-1942: temporary exhibition with more than 250 works from the Musée Picasso in Paris. It presents Picasso's engravings as a diary and follows the different themes and techniques that inform the artist's work; to Apr 4

COLOGNE

OPERA
Oper der Stadt
Tel: 221-221 8400
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Dec 11

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-299 8820
Treasures from King Zhao Mo: king Zhao Mo's tomb, sealed in 122 BC, was accidentally discovered in 1983. This exhibition displays the many treasures buried with Zhao Mo, the first time they have been seen in the west; to Jan 22

OPERA
Oper Frankfurt
Tel: 49-69-21237 999
www.frankfurt-business.de/oper
Die Zauberflöte: by Mozart. Conducted by Guido Johannes Rumstadt in a staging by Alfred Kirchner. With a cast including Britta Stallmeister; Dec 7, 10, 12

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-403 021
Anna Bolena: by Donizetti. Conducted by Maurizio Barbacini in a new staging by Jussi Tapola, with designs by Anna Kontek; Dec 8, 10

HONG KONG

DANCE
Sha Tin Town Hall
Swan Lake: by Tchaikovsky. Performed by the Kirov Ballet; Dec 8, 9, 10, 11, 12

HOUSTON

EXHIBITION
Museum of Fine Arts, Houston
Tel: 1-713-639 7750
www.mfah.org
Brassaï: The Eye of Paris. A retrospective of the photographer's work that coincides with the 100th anniversary of his birth. The exhibition includes the widely-acclaimed 'Paris at Night' series: photographs taken during nocturnal wanderings with the flâneur and poet Léon Paul Fargue. Also on view are portraits of other artists and writers of Brassaï's time, among them Dali, Picasso and Genet; to Feb 28

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Sir Colin Davis conducts a series of works by Elgar; Dec 9, 13

Wigmore Hall
Tel: 44-171-935 2141
Fazil Say: Turkish pianist makes his first London recital. Includes works by Bach, Berg and Mozart; Dec 7

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Mirror Image: Jonathan Miller on Reflection. Show exploring the representation of mirrors in art, curated by Miller and featuring loans from public and private collections. Includes Van Eyck's famous Arnolfini Portrait, and works by Freud, Caillebotte and George Romney; to Dec 13

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Boris Godunov: by Mussorgsky. Conducted by Noel Davies in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. Gidon Saks sings the title role; Dec 8, 11

THEATRE
National Theatre
Tel: 44-171-928 2252
Betrayal: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Calf and Imogen Stubbs; Lyttleton Theatre; Dec 7, 8, 9

LOS ANGELES

OPERA
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Fantastic Mr Fox: Los Angeles Opera in the world premiere of an adapted Roald Dahl story. With music composed by Tobias Picker and libretto by Donald Sturrock; the designs are by Gerald Scarfe. Cast includes Gerald Finley and Susanna Guzmán; Dec 9, 12

NAGOYA

EXHIBITION
Matsuzakaya Art Museum
The Carmen Thyssen-Bornemisza Collection: touring show of 94 paintings, ranging from the 18th century to the early 20th. Highlights include 19th century Spanish works and works by American painters. Also on display are recently acquired works by Delaunay and Braque; to Dec 8

NEW YORK

CONCERT
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in works by R. Strauss. With soprano Deborah Voight; Dec 8

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Letters in Gold: Ottoman Calligraphy from the Sakip Sabanci Collection, Istanbul. 70 objects ranging from the 15th to the 20th century. Includes manuscripts, panels and scrolls; to Dec 13

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● La Traviata: by Verdi. Production by Franco Zeffirelli with a cast including Ainhoa Arteta and Roberto Aronica. Carlo Rizzi conducts; Dec 9, 12
● Lucia di Lammermoor: by Donizetti. New production by Nicolas Joël. Ruth Ann Swenson sings the title role and Carlo Rizzi conducts; Dec 7, 11

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Wolfgang Sawallisch in works by Beethoven. With soprano Susan Anthony, mezzo-soprano Marjana Lipovsek and tenor Wolfgang Bünten; Dec 9, 10, 12

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Merry Widow: by Franz Lehár. Conducted by Armin Jordan and with a cast including Frederica von Stade and Hakan Hagegard; Dec 10, 12

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
The Magic Flute: by Mozart. Jean-Claude Malgoire conducts and the staging is by Pierre Constant. With La Grande Ecurie et la Chambre du Roy and the Maîtrise du Centre de Musique Baroque de Versailles; Dec 7, 9, 11, 13

ROME

CONCERTS
Accademia Nazionale di Santa Cecilia
Tel: 39-6-6880 1044
Orchestra and Choir of the Accademia Nazionale di Santa Cecilia: conducted by Myung-Whun Chung in works by Mozart and Mendelssohn; Dec 7, 8

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
Peter Grimes: by Britten. Conducted by Donald Runnicles in a staging by John Copley, with sets by Carl Toms. The title role is sung by Thomas Moser; Dec 8, 11, 13

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

هكذا من الأصل

COMMENT & ANALYSIS

PERSONAL VIEW MADELEINE K. ALBRIGHT

The right balance will secure Nato's future

The alliance in the 21st century will require new co-operation in defending enlarged borders against a variety of threats

Peacekeepers: Nato troops in Bosnia, an example of where the alliance had to act outside its borders

Tomorrow my colleagues and I in the North Atlantic Treaty Organisation will meet in Brussels to set the agenda for the April 1999 Nato summit in Washington. There, alliance leaders will commemorate Nato's 50th anniversary and welcome, for the first time as Nato allies, the heads of state of the Czech Republic, Hungary and Poland.

We should be proud of what the alliance accomplished in its first half century. But we cannot be complacent. Today we face issues different from but no less challenging than those faced by our predecessors 50 years ago. The Washington summit will be the first summit of the 21st century: it will chart Nato's future, not just celebrate the past.

In Brussels we will continue our efforts to build a Nato that is a larger, more flexible alliance, committed to collective defence, capable of meeting a wide range of threats to common alliance interests, and working in partnership with other nations and organisations to advance security, prosperity and democracy in and for the entire transatlantic area.

At the Washington summit, our leaders will issue a new strategic concept, a blueprint for the alliance's future. A 21st-century Nato must take account of the new strategic environment. While most of Europe is more secure than at any time in living memory, alliance territory and alliance interests can be affected by a range of risks from a variety of sources. As President Clinton said in Berlin last May: "Tomorrow's alliance must continue to defend enlarged borders and defend against threats to our security from beyond them – the spread of weapons of mass destruction, ethnic violence, regional conflict."

Bosnia and Kosovo are recent examples that demonstrate Nato must act when conflicts beyond its immediate borders affect alliance interests. Nato's new strategic concept must find the right balance between affirming the centrality of Nato's collective defence missions and responding to such crises. Together, we must improve both our flexibility and our capability to prevent, deter and if necessary respond to the full spectrum of possible threats to alliance interests.

Nato's primary mission will always remain defence against aggression. That is the heart of the original 1949 Washington Treaty establishing Nato. But the founders of the alliance also distinguished between what the treaty commits us to do and what it permits us to do. If joint military action is ever needed to protect vital alliance interests, it makes sense to use the unified military structure and the habits of co-operation we have built up over the past 50 years.

In addition to reaching agreement on a new vision for the 21st century, the task for the Washington summit will be to ensure that Nato has the means to realise that vision. We need military forces that are designed, equipped and prepared for 21st-century missions.

William Cohen, US defence secretary, has been working closely with allied defence ministers on proposals to modernise Nato's military forces. Our goal is to reach agreement at the Washington summit on a long-term programme to develop the right capabilities to ensure both self-defence and the ability to respond quickly and effectively to crises.

That is why we welcome the call from Tony Blair, the UK prime minister, for Europeans to consider ways they can take more responsibility for their own security and defence. Our interest is clear: we want a Europe that can act. We want a Europe with modern, flexible military forces that are capable of putting out fires in Europe's backyard and working with us through the alliance to defend our common interests. European efforts to do more for Europe's own defence make it easier, not harder, for us to remain engaged.

We will examine all proposals on European defence and security with a simple question in mind: does it improve our effectiveness in working together? Like Mr Blair, we believe the emphasis should be placed on enhancing the practical capabilities Europe brings to our alliance.

The Kosovo crisis shows how practical European defence capabilities can help fulfil Nato missions. Thanks to the initiative of the French and the contributions of the Germans, British, Italians and other allies, Nato is deploying an all-European "extraction force"

'We welcome Tony Blair's call for Europeans to consider how to take more responsibility for their own security'

for the monitors of the Organisation for Security and Co-operation in Europe who are being sent to the troubled province.

This force is under Nato command, and is based on solid European capabilities. It shows how European forces can work within Nato to great effect in the real world. We appreciate the willingness of the government of the Former Yugoslav Republic of Macedonia to host this force.

Kosovo carries another lesson: political will is more important than additional institutional structures. The problem in Kosovo before we acted together was not the lack of appropriate institutions; it was the lack of agreement to use the institutions we have.

As Europeans look at the best way to organise their foreign and security policy co-operation, the key is to make sure that any institutional change is consistent with basic principles that have served the Atlantic partnership well for 50 years. This means avoiding what I would call the Three Ds: decoupling, duplication and discrimination.

First, we want to avoid decoupling: Nato is the expression of the indispensable transatlantic link. It should remain an organisation of sovereign allies, where European decision-making is not unhooked from broader alliance decision-making.

Second, we want to avoid duplication: defence resources are too scarce for allies to conduct force planning, operate command structures, and make procurement decisions twice – once at Nato and once more at the EU. And third, we want to avoid any discrimination against Nato members who are not EU members.

The goal outlined by Mr Blair is consistent with these principles. We look forward to discussing with all of our European allies and partners how to strengthen Europe's capacity to act.

One challenge in particular the Washington summit must address is the very real threat to our people, our territory, and our military forces posed by weapons of mass destruction and their means of delivery. We must improve overall alliance efforts both to stem proliferation and to deter, prevent and protect against such attacks. Nato's efforts should complement, not supplant, the existing regimes and efforts under way to control proliferation.

The 21st-century Nato we envisage will be a central pillar of a much wider North Atlantic community of shared risk and responsibility among increasingly secure and prosperous democracies. For nations aspiring to membership, Nato's door remains open, and the alliance should be even more active in its efforts to help them walk through it.

Nato enlargement is not a one-time event; the first new members will not be the last. But the Washington summit should improve our ability to work jointly with all partner nations, regardless of their alliance aspirations, to extend security and stability throughout this broader community. Nato's distinctive partnership with Ukraine is an important element of this broader effort.

We want Russia to be a close and active participant in this 21st-century partnership. My colleagues and I will be meeting this week with Igor Ivanov, the Russian foreign minister, in the Nato-Russia Permanent Joint Council, where we continue our efforts to improve co-operation in the spirit of the Nato-Russia Founding Act, which will celebrate its second anniversary in June.

Nato and Russian troops continue to work side by side in Bosnia. Together we are working on possible Russian participation in the Air Verification Regime in Kosovo. We plan to open a military liaison mission in Moscow. Together we are retraining retired Russian military officers, developing co-operative responses to civil emergencies, and developing common approaches to non-proliferation and to environmental protection – all signs that the Nato-Russia relationship continues to move forward.

The lesson of this century – the bloodiest ever – is that when Europe and the US act together, we advance our interests and our values more effectively than any of us can alone. When we fail to agree, stalemate and even crisis are the result.

Fifty years from now, we want a succeeding generation to say that we learned our lesson and applied it well to the many challenges we would face in the new century. That new century is being shaped today by our joint response to instability in the western Balkans. And it will be shaped to a great extent by the decisions we take this coming week and over the coming months.

I am confident that those decisions will be the right ones for the future of our great alliance.

The author is US secretary of state

Relentless opponents: Bill Clinton remains under pressure from determined Republicans

President trapped by a vacuum

Bill Clinton still faces the threat of impeachment because of lack of leadership in the Republican party, writes **Gerard Baker**

A month ago, it looked as if American voters had settled the immediate political fate of President Bill Clinton.

Democrats gained seats in the mid-term congressional elections; Republicans lost them. It was clear the public wanted Congress to drop the partisan impeachment proceedings against the president. Whatever Mr Clinton had done, exit polls and results indicated, it did not amount to an impeachable offence.

But this week or shortly thereafter, the House of Representatives' judiciary committee looks likely to approve at least one article of impeachment against Mr Clinton on the charge of perjury. A week after that, the whole House is expected to vote. The outcome will be very close. If (as is possible) the House votes to impeach, there will be a protracted trial in the Senate. This will ensure that the popular desire for a quick end to the saga will be thwarted.

What explains this dissonance between the apparent judgment of voters and the Republicans' determination to press on with their efforts to remove the president? Why are Mr Clinton's opponents so eager to risk strengthening the popular backlash that dealt them such a blow last month?

The renewed zeal seems all the more curious given that no one, not even the most militant of anti-Clinton Republicans, believes the process will result in the removal of the president.

In a Senate trial, two-thirds of the 100 senators would have to vote for the president's conviction. And with just 55 Republicans, some of whom will not, in any case, vote to remove him, Mr Clinton can rest assured he will not be leaving office against his will any time soon.

So why do House Republicans seem hell-bent on such a fruitless and unpopular course?

A small number of the party's moderate congressmen seem eager to drop the impeachment grenade before it does them any more harm. About 16 are are expected to vote against it. But with two or three hardline anti-Clinton Democrats prepared to side with the remaining 212 or so Republicans in the House, the impeachers are tantalisingly close to the 218 votes they need.

The White House is preparing for the worst. "They just seem intent on pursuing this all the way through," said Joe Lockhart, the White House press secretary.

A number of factors explain the intransigence of House Republicans. The argument that the impeachment process is unstoppable is not one of them. It is true that the proceedings that began before the elections must, according to the constitution, be concluded. But that would not stop Congress, if it wanted to, from coming to a quick vote and disposing of the matter.

For many Republicans, the real force pushing them forward is a powerful antipathy towards President Clinton. Congressmen such as Bob Barr and Dan Burton, who belong to their party's vocal conservative wing, are convinced Mr Clinton deserves to be removed, whatever voters think. They know the brief opening of the impeachment window is almost certainly the last chance they will get – however remote – to destroy Mr Clinton, and they will not let it pass.

Other conservatives believe that, even if the process ultimately fails, they have much to gain by keeping the cloud of allegations firmly over Mr Clinton's head. The White House is keen to make a new start in January with new legislative proposals on a range of issues for Mr Clinton's final two years. Some Republicans hope that, for the second successive year, the administration's agenda might be ruined by scandal.

For another, less zealous group, pressing charges against the president has a practical purpose. They accept the public's view that Mr Clinton should not be ousted, but they are keen to ensure that the president is properly punished for his egregious behaviour.

But what punishment would be appropriate? In the aftermath of the November elections, arguments for some form of censure motion gained ground among both Democrats and Republicans. Yet in recent weeks, several moderate Republicans have backed away from the idea. Some feel it would be meaningless or even unconstitutional, while others point out that reaching agreement on wording with Democrats may prove impossible.

In the knowledge that the Senate will not remove the president, some Republicans argue it would be better for the House to pass the most damning form of censure possible: impeachment.

Mr Clinton, while staying in office, would be permanently tarnished by the shame of being only the second president in US history to have been impeached.

"It's really the only serious punishment we can mete out – and one that probably fits the crime," says one Republican official.

But perhaps the most important reason the impeachment locomotive hurtles on is that no one is at the controls.

With the resignation of Newt Gingrich as House Speaker last month, the Republicans are leaderless. Although he will formally remain Speaker until the end of the current session next month, Mr Gingrich is not enthusiastic that his last act should be an impeachment vote.

He would prefer his successor, Bob Livingston, to take charge of the impeachment process. But Mr Livingston wants a clean slate by the time he takes office.

And in that vacuum, the party's perennially noisy and truculent infantry are pushing the process chaotically forward.

LETTERS TO THE EDITOR

Chile shows a lack of political will

From Janis Frenchak.

Sir, The Permanent Committee for Chile commends Philip Stephens's commentary on Pinochet's detention and the ruling of the House of Lords ("Ruling for humanity", November 27).

While discussions arise regarding the political, trade and foreign relations implications of Judge Baltasar Garzon's decision to utilise the extradition process and the decision of the House of Lords, Stephens emphasises the reality of the suffering under Pinochet's military regime and the responsibility of other human beings to hold the actors of the 17-year dictatorship accountable.

Yes, the ideal scenario would have Pinochet tried in Chile, and exacting of this type of justice would bring tremendous tears of victory. The reality is that the Chilean government has demonstrated a lack of will (be that out of fear or political ties) to liberate Chile from the dictatorship-inherited constitution, to refute the amnesty laws protecting the military, and to bring justice to the victims and relatives who suffered the disappearances and torture. In fact, this recent episode in Chilean history has frustrated anyone who believed that the Chilean government had a stake in Chilean democracy, as they have repeatedly stated that they will defend the former dictator.

Killing and torture are wrong. Amnesty for these crimes is inexplicable.

A special thanks to Philip Stephens, whose commentary demonstrates that a country's human rights record is viable ground for establishing international relations.

Janis Frenchak,
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Virgin's naive rail plan

From Mr Alex McWhirter.

Sir, Virgin is rather naive if it "believes improved rail travel will put an end to London-Manchester flights by 2002" ("Branson targets more rail routes", November 18).

Not only are the four London area airports served from Manchester more convenient than London's Euston station, Virgin makes no allowance for the hundreds of thousands of passengers who are flying Manchester-London simply to make an international connection at Heathrow or Gatwick.

French Rail (SNCF) expressed a similar view when they launched 300kph TGVs on dedicated track between Paris and Lyon (a similar trip to London-Manchester). TGVs on this route provide a faster and more reliable service than Virgin can ever hope to achieve. Yet despite this, the airlines still see enough demand for 14 Paris-Lyon flights a day.

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Principle and practice of the Lords

From Mr Keith Wedmore.

Sir, May I summarise the argument about the House of Lords for the benefit of your busy readers?

The Labour party is saying: it's all very well in practice, but how does it work out in principle?

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ECONOMICS NOTEBOOK WOLFGANG MUNCHAU

Germany's agenda

Lafontaine ultimately argues that the start of Emu is not the end of European economic policy co-operation, but the beginning

Oskar Lafontaine, the German finance minister, has come under fire recently. Opponents in Germany accuse him of staging a Keynesian counter-revolution. Some cynics argued that he was the true mastermind behind last week's cut in European interest rates.

Outside Germany there is even more confusion and bewilderment. Professor Rudi Dornbusch, of the Massachusetts Institute of Technology, called him a man of the past "who spent the past 20 years in some distant gulag". A British tabloid newspaper asked whether he was "the most dangerous man in Europe".

So what does Mr Lafontaine believe? These are the policies he supports:

- Closer co-ordination between fiscal, monetary and incomes policy to achieve an optimal mix.
- A monetary policy that supports economic growth.
- The elimination of unfair tax competition in the European Union, and majority voting on EU tax policy.
- Stabilisation of the euro exchange rate against third currencies.

This is hardly a radical agenda. It is, of course, a different one from the previous German government's – which had virtually abandoned all attempts at macroeconomic policy. The Maastricht treaty, which was heavily influenced by German thinking, tried to put policy on auto-pilot: monetary policy should be geared to achieving low inflation; fiscal policy should aim at balanced budgets over the economic cycle. But the treaty does not say how the two should interact.

Mr Lafontaine believes that the main pillars of economic policy should be co-ordinated within the Euro-11 group of finance ministers. This view was motivated by Germany's experience during the 1990s. After unification it expanded the fiscal deficit in one of the biggest stimulus programmes ever. This triggered an offsetting reaction in monetary policy by the Bundesbank, which raised interest rates to near 10 per cent in 1992. Far from being co-ordinated, policies were pulling in opposite directions.

Later, when the German economic cycle turned down, the government tightened fiscal policy when it realised that it would otherwise fail to qualify for the single currency. The upshot was that the government loosened policy when it should have tightened, and it tightened policy when it should have loosened.

This situation was aggravated by disastrous mistakes in wages policy. Germany's trade unions first persuaded employers to equalise wages between west and east Germany, irrespective of the large productivity gap. And then in 1994 they pushed for excessive wage increases at a time when the economic cycle turned against them. Germany's macro-economic policy errors were an important factor behind the strong increase in cyclical unemployment – that eventually became structural unemployment when the cycle remained depressed.

Mr Lafontaine fought – and lost – the 1990 election against Helmut Kohl on those issues. Today, as finance minister, his main concern is to avoid a repeat of the serious policy errors of the 1990s. Europe could not afford the mistakes that Germany made. Germany cannot afford them twice.

It is not clear yet how the European Central Bank will react to invitations of policy co-ordination. Wim Duisenberg, president of the ECB, has signalled willingness to co-operate in principle, but he also said the ECB cannot make explicit deals with 11 finance ministers.

The central bankers believe that fiscal policy must deliver its side of the bargain first. But it is not clear how well finance ministers will co-operate: it is conceivable that even if a country ran a tight fiscal policy it might not be rewarded with lower interest rates if other countries did not take the same line.

A policy mix made up of tight fiscal policies, relaxed monetary policies and wage moderation would provide the best insurance policy against a further economic downturn. In principle, there are two ways for the euro-zone to reduce its current account surplus and absorb third-country exports: either through stronger domestic growth or through an appreciation in the real exchange rate of the euro.

Which of the two it is going to be depends on the fiscal-monetary mix. If interest rates stay low or fall even further, and if fiscal policy remains tight, Europe may be lucky. A different policy mix could trigger a sharp appreciation – if not an overshooting – of the euro against the dollar. Economic growth in the euro-zone would then grind to a halt.

Mr Lafontaine's other economic objectives – the pursuit of stable exchange rates and tax harmonisations within the European Union – follow on from this. He has made a mistake by calling for exchange-rate target zones, especially since the US administration will not agree to this. But there may be some support – even among central bankers on both sides of the Atlantic – for flexible policies to prevent exchange rate overshooting.

The other issue – tax harmonisation – has recently caused much controversy in the UK. Elsewhere in Europe, everybody, including the central bankers, agree that tax harmonisation is desirable, or at least inevitable in the long run. Tax harmonisation is just part of the wider designs of economic union – which is what the "E" in Emu stands for. This point is understood implicitly by all the 11 countries taking part in Emu.

Ultimately, Mr Lafontaine argues that the start of Emu next month is not the end of European economic policy co-operation, but the beginning. The irony is not lost that Mr Kohl, his old adversary, said the same many years ago: economic union does not work without political union. It may all be happening sooner than some people had realised.

Lafontaine: motivated by Germany's experience during the 1990s

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FINANCIAL TIMES

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Putting Europe in uniform

The Anglo-French declaration that the European Union should have a defence role is, as Tony Blair said, historic. It brings together the two countries whose views on the political shape of European defence had long diverged the most, and the only two European countries with all-round military forces and a tradition of using them.

It comes as Madeleine Albright, the US secretary of state, in the article opposite, has welcomed European efforts to take more responsibility for their own defence and argued for broadening Nato's role. It fits well with pressure from European governments both to consolidate defence industries and get better value out of defence budgets by harmonising procurement and pooling research spending.

Above all, it could provide the EU with its missing dimension. The EU is the most powerful institution in post-war Europe but its purely civilian nature has all too often allowed member governments to slide out of their military obligations and pass the buck to Nato and the US.

Giving the Union a voice in security policy ought to make Europeans face up more readily to tackling the crises around the Union's borders. In short, it should turn Europe into the strong Nato partner the US has always said it wants. Washington has publicly welcomed the Anglo-French declaration, though it has private misgivings.

The US's positive reaction vindicates Mr Blair in making a historic shift in British policy. The UK long resisted any defence role for the EU, partly for fear that it could undermine Nato. It is now incumbent on France, which has essentially won its argument for EU involvement in defence, to show it has given up any attempt to snap the transatlantic military link. President Chirac recognised the hard fact of Nato's military primacy a couple of years ago but his successors will need to understand this too.

The Anglo-French declaration may be enough to create a real EU defence role without further treaty change. In 1991, it was agreed at Maastricht that the EU should "progressively frame" a common defence policy.

But many questions remain unanswered. How will the EU's four neutral members fit in? What is to become of the Western European Union, the defence body whose 10 full members belong to the EU and Nato?

How will EU members behave? If they arrive at alliance meetings with pre-cooked positions from which they refuse to depart, it would seriously annoy the US, and might frustrate European ambitions for bolder military policy. EU "common positions" tend to be feeble. If Nato had followed EU common positions, it probably would not have acted on Bosnia or Kosovo.

Holocaust suits

The quest for justice and truth for the victims of the Holocaust is widening its net. The effort to compensate Holocaust survivors or their families focused first on looted gold, then dormant bank accounts, and has now spread to insurance policy claims, art and communal property.

Last week's 44-nation conference in Washington was intended to start wrapping up the diplomatic phase of the inquest by agreeing on guidelines for further investigation and settlement. Sweden and Poland are now offering to host future conferences on confiscated art and property, while German and Austrian companies are being pursued in the courts by those forced to work for them during the war. Ford and General Motors are also accused of profiting from "slave labour" in their German subsidiaries.

There are many reasons why this inquest should burgeon only now – the new-found freedom for east European victims to voice their grievances; a new international concern about human rights; the activism of US Jewish groups; and the prospect of gaining something like the $1.25bn settlement that Swiss banks recently made with Jewish groups. But whatever the reason, it is good to see a start to the quest for justice and truth – it can be achieved without the bitter recrimination that marked the Swiss bank deal.

One lesson from that deal is that Swiss banks would have been far better advised to have made prompt good faith payments to atone for their war-time conduct. By contrast, companies like Volkswagen and Siemens that have set up funds to compensate their war-time "slave labourers" have found that prompt atonement has generally satisfied their accusers.

Compensation made in good faith must be accepted as such, and not pushed ever higher by the menace of sanctions. Hopefully, the issue of unpaid insurance claims will be settled amicably and swiftly by the new commission between European insurers and US regulators.

Moral pressure can be just as effective, as Russia's surprising change of heart shows. After previously claiming that its wartime booty was just compensation for war damage, Russia last week declared itself ready to return looted art to victims.

The broadening of the Holocaust inquest is also providing more perspective. Ford and GM argue that their wartime links with their German subsidiaries were minimal or non-existent even in the period of US neutrality up to 1941. But the appearance of US companies in the dock makes the Holocaust inquest look less partial. It is a reminder that the US, on a formal level, was for the first two years of the war as neutral as Switzerland.

Taiwan votes

The resounding Kuomintang victory in Taiwan's parliamentary and mayoral elections will make it harder for China to push its case for reunification.

Ma Ying-jeou's victory in the race for Taipei city hall is an indication that the status quo supposedly preferred by Taiwanese voters – whereby the reunification issue is simply deferred – is not tenable indefinitely. Taiwanese society is changing in ways that threaten to make reunification irrelevant in the long run. Unless both China and Taiwan learn to acknowledge this and adjust their positions accordingly, the danger of outright hostilities will increase.

Mr Ma secured support for himself and the KMT by promoting the concept of the "new Taiwanese" – the mainlander (like himself) who came as a child to Taiwan and has now been fully absorbed into the local society. This found resonance because the old divisions between the native born-Taiwanese, who have never been keen on reunification, and the mainlanders, who flocked to the island after the 1949 revolution, have been steadily breaking down.

Out of this melting pot Taiwan is steadily forging its own unique identity. First came its economic achievements, then its vibrant democracy. Now its distinctive social development is putting it inexorably on a different track to the mainland. That is a fact which Beijing cannot ignore, however strong its claim to sovereignty.

As it becomes increasingly frustrated, China may again be tempted to try force. It has much to lose, especially now that it has established a better relationship with the US and enjoys growing stature in the rest of the world. But, for domestic reasons, China's president, Jiang Zemin, cannot afford to turn soft on an issue that he himself has established as an utmost national priority.

As for Taiwan's president, Lee Teng-hui, he should not see this election result as a mandate to continue his strident approach. Both sides urgently need to find ways of improving mutual confidence. That means putting more conviction into the high level talks with Beijing that resumed this autumn and looking for practical concessions that will help their relationship work better.

China cannot hope to reunify successfully with a Taiwan that does not trust it. Taiwan, whether it ultimately aims for reunification or not, cannot carve its own destiny without a viable and safe relationship with the mainland. Continuing with megaphone diplomacy would be to ignore an increasingly complex reality. That would be dangerous both for the parties involved and for the security of the world as a whole.

Builder of the euro team spirit

The ECB president tells Peter Norman, Lionel Barber and Wolfgang Münchau that he thinks the unity behind last week's rate cuts augurs well for the euro zone

Wim Duisenberg has seen the future and he likes the look of it.

One of the main worries surrounding Europe's bold project to launch a single currency at the start of next year has always been the possibility that national differences might produce bitter and paralysing arguments at the European Central Bank. So the question has been whether the ECB would develop a sufficiently "European spirit" to manage a one-size-fits-all interest rate policy for all 11-members of the euro area.

Last Thursday, the craggy 63-year-old Dutchman who became the ECB's first president in July, got the answer he wanted. Four weeks before the launch of the third and final stage of economic and monetary union, central banks cut their benchmark interest rates in all 11 euro countries, and in 10 set a uniform 3 per cent rate for the start of the euro.

For Mr Duisenberg these events were more than a piece of monetary management. The rate cuts throughout the euro area were decided in the ECB's decision-making council two days before. They marked a "unique moment", he said.

The 17-person decision-making council is made up of the six-strong, Frankfurt-based ECB board and the member states' central bank governors: events appear to show how individuals are cutting loose from their national roots and are already developing a European institution with a pan-national ethos.

Not for the first time, Europe's central bankers had forged ahead down the path of greater integration, leaving politicians behind. For Mr Duisenberg last Thursday's events were especially sweet: he was chosen in May by European Union leaders to head the ECB only after a messy public row, in which national interests were uppermost.

"I am very happy that we have come to this decision," he told the Financial Times in an interview shortly after the cuts. "It is history that 17 central bankers were able to come to a consensus that for several countries – think of Ireland, Portugal and Spain – was not easy to make, based on their national interests. But they completed. They not only went along. It took little time to convince them."

This rapid emergence of the ECB as an institution with a euro way of thinking may please advocates of EU integration. But is there not a danger that the single monetary area with its single short-term interest rate will accentuate existing differences between the member states' economies and create problems for the future? And is not the euro being launched in a climate of artificial calm, because so much of the world's attention is focused on the economic crises of east Asia and Russia?

Mr Duisenberg believes recent events suggest the answer is no: the euro members will be able to cope with a single interest rate, while the state of the European economies provides reasons for optimism about the launch of the euro. When the Republic of Ireland cut its short-term interest rate sharply by 1.25 percentage points early last month there were no adverse effects for the exchange rate or on prices, he pointed out.

"It may well be that the openness of the European economy, with complete free trade and increased competition, can keep the lid on inflationary tendencies in various regions. And of course we have to live with the fact that cyclical developments may vary in a large economic region, just as in the United States."

Looking further afield, "what I find remarkable and gratifying is that the liquidity crisis we have had in Asia, Latin America and the US, and to some extent in Europe, has caused no tension inside the participating countries of Emu. And the same is true for short-term interest rates.

"This financial crisis has been very different from all the ones that I have witnessed since 1982. On former occasions, there were always flows into the dollar and D-Mark, sometimes tearing apart the European exchange rate system. This time there has been nothing of the sort."

In Mr Duisenberg's view the rate cuts now promise nothing but good. A worry is the way business and consumer confidence is declining in the EU. Economic growth is now forecast to "moderate" to around 2.5 per cent – too low to help reduce unemployment. If all goes well, the lower interest rates should strengthen confidence and investment and so "could help moderate the moderation". A decline in confidence "is something we cannot allow to happen".

The rate cuts will make for "much smoother sailing into the new uncharted waters" of Emu, said Mr Duisenberg. "There are big advantages doing something now rather than later because this is intended to be the rate at which the system will enter the third stage of Emu and it is intended to remain there for the foreseeable future. We do want to indicate that this is where we want the rates to be and where we want to keep them for as long as we deem it appropriate," he said.

Despite falls in business confidence, his verdict on the European economy is 'so far so good'

The hope is that this will ease uncertainty and volatility on financial markets. "All the speculation about the rates was one of the elements of uncertainty surrounding the markets."

By acting last week, the euro area's central bankers also got over a tactical problem. "We were convinced, given the economic circumstances, there would have to be a move on interest rates on entering or soon after entering the euro."

Without a timely cut, "we would have had a great problem in explaining why the Bundesbank, the Banque de France and the Netherlands central bank thought at the end of December that the level of 3.3 per cent was appropriate and things then would have changed immediately thereafter".

And then there was a message for those pesky politicians, such as Oskar Lafontaine, Germany's finance minister, who since Germany's general election in September has been pressing for lower interest rates in Europe and upsetting the central bankers' sense of independence.

The central bankers on the ECB council had been talking about the right initial rate for Emu "constantly" and "for months", Mr Duisenberg disclosed. "The political pressure that arose in the meantime only made it rather more difficult to actually do something." That something has now been done – or rather nearly done, because Italy decided to play the odd man out among the euro 11 and cut its key short-term interest rate only to 3.5 per cent.

"I can't say I particularly like it. But it doesn't spoil the entire process. I am much more pleased with the overall outcome," Mr Duisenberg said. Italy still has some weeks in which to fall into line so that the European central bank can set its benchmark securities repurchase, or repo rate, as planned on January 4.

Italy's action was a reminder that Europe's central bankers are not immune to pursuing and safeguarding national interests. But Mr Duisenberg remains optimistic that such problems are being overcome.

"It is a learning process. We are 17 people with individual responsibilities. We have to avoid hostile groups ganging up against each other," he said.

The first meeting of the council during the summer yielded an important lesson. "I made a big mistake," Mr Duisenberg admitted. "I put the executive board on one side of the table and the national governors on the other. And in the course of that day, you saw groupings develop," between the board and national governors. "So at the second meeting, we placed everybody in alphabetical order, and by name not by country."

There are no indicators of the ECB council members' nationality as they sit around the table. "There is only one big disadvantage" of placing them in alphabetical order, Mr Duisenberg joked. "It means presidents Hans Tietmeyer [of the Bundesbank] and Jean-Claude Trichet [of the Banque de France] always sit next to each other. Although there is one man, one vote, they are both big central banks, so although their vote is not bigger, it is sometimes louder."

But it seems that attention to placement is influencing behaviour. "You hear less and less each month about particular developments in a particular country." The euro team spirit is also apparent at international meetings, such as the monthly gatherings of the central bankers from the Group of 10 big industrial countries in Basle. "I have been asked to comment on developments in Europe," Mr Duisenberg said. "The last couple of times, the chairman asked if any governors from Europe had anything to add, and they said no."

So it is perhaps not surprising that in the wake of the interest rate cuts, and with Europe apparently shielded from the Asia crisis, Mr Duisenberg seems to be a man with a weight off his mind.

The last significant decision before the euro's launch has been taken. And, despite recent falls in business and consumer confidence, his verdict on the European economy is "so far so good".

But he admits that one aspect of his job still causes difficulties. "I still have to get used to the intensity with which the world watches every word you say or every move you make. I originally thought it was somewhat exaggerated. I now realise that I have to watch my words with the same intensity as Alan Greenspan," the delphic chairman of the US Federal Reserve.

There is no escape from self-censorship for the plain-speaking Dutchman. "You are so easily misinterpreted, or correctly interpreted on what you wouldn't have wanted to say in the first place."

OBSERVER

Soros trumps Gore's snub

The contest to be the Malaysian government's public enemy number one (foreign division) is hotting up.

Months ago, financier George Soros was in pole position, when prime minister Mahathir Mohamad called him a "parasite" who had destabilised Asia's otherwise hunky-dory markets.

But he was knocked off his perch by US vice-president Al Gore who turned up in Kuala Lumpur a few weeks ago and backed the reform movement launched by Anwar Ibrahim, the political foe of Mahathir whose current trial on charges of sexual misconduct and abuse of power is regarded with much suspicion.

The government was furious, and what left an even worse taste in Malaysian mouths – even among some Anwar supporters – was the diplomatic snub Gore delivered by leaving the dinner at which he made the comments without eating with Mahathir.

Now Soros is bidding for the title again, with a speech calling for Anwar's release. If the opposition leader was jailed, said Soros, he hoped public opinion would turn against Mahathir.

There was a quick protest from the previously obscure Malaysian Association of Youth Clubs, and ministers are lining up behind Mahathir. One denounced Soros's "absolute arrogance", another said it he had "reinforced perceptions that there are external agenda trying to provoke the Malaysian people". Bashing foreign bogeymen seems easier than confronting the arguments of domestic opponents.

Clampdown

The city that brought you the wheelclamp hasn't finished yet. The capital of the state of Colorado has come up with a new way to use the Denver Boot.

It seems that the powers that be in Mile High City are fed up with state laws that are soft on speedsters. If you're caught on a speed camera, the fine is $40 whether you're 10 or 100 mph over the limit, and you can rack up as many fines as you like without any harm to your licence. Many drivers just ignore the fines.

So Mayor Wellington Webb has come up with a plan to track down non-payers and apply the Denver Boot to their cars at their own homes or workplaces until the fines are paid. If the city council gives the nod later this month, the traffic cops expect a sharp intake of cheques.

Diesel tax

There's some bad news for Serbia's nouveau riche. The government of rump Yugoslavia is getting ever more creative in the taxes it's levying to keep the crumbling economy going.

The latest taxes will hit mobile phones and guns, those totems of Belgrade's "Diesel Boys" – named for the Italian fashion jeans they wear rather than the type of Mercedes they drive.

The money raised will go on "social programmes", promises deputy prime minister Tomislav Nikolic. "We have to take more from the haves because there are more and more have-nots. I won't even mention other taxes that we shall impose."

Radio station B92 has been trying to help him fill the gap, pitching some suggestions of what might be in store: like a levy on fat people to help their thinner brethren, compulsory blood donations from car owners and a "truth" tax for the media. The latter might just be a runner. Some of the independent press would have to pay up, but the state-run mouthpieces wouldn't suffer too much.

Furby low

This year's must-have toy in the US is Furby, an irritating furry electronic animal that "interacts" with its owner. Queues of desperate parents are forming in the early hours outside toyshops in hopes of bagging one.

But are they wasting their time? A survey for Minneapolis-based investment firm Piper Jaffray says 37 per cent of us admit that we don't remember what out loved ones gave us last Christmas.

But it isn't all selfless research – curiously enough, the same survey claims that 41 per cent of people would rather receive an investment product than a traditional gift anyway.

Think about it, Piper Jaffray says. If you'd spent $500 on an eight-track tape player for your child in 1980, it would be obsolete and useless by now. "But, if you had deposited that same $500 into a modest-growth investment with an 8 per cent return, your child could now have more than $2,000 saved."

Just enough to buy a Furby on the black market.

Slim pickings

As if worrying about worldwide economic gloom wasn't enough to contend with, hoteliers have an extra concern – their guests are getting slimmer.

It's the swankiest hotels that are having the thinnest time, according to Small Luxury Hotels of the World. Instead of lobster thermidor washed down with a bottle of Chablis Premier Cru followed by smelly fromage with a glass of port, your modern upmarket traveller is more likely to demand a grilled salmon steak and a bottle of eau pétillant. Not much margin in that.

To make matters worse, they're also likely to ask for unusual dishes at odd times, stretching the kitchen staff budget. No more living off the fat of the land.

The Financial Times

100 years ago

Transvaal Rebellion

Pretoria, 5th Dec. The Magato war is now finished. The entire Zoutpansberg range for a distance of a hundred miles is cleared of the rebels. Their chief, Mpefu, has fled across the river into Rhodesia. Volunteers will be called to garrison five forts in the region. The rebellion in Magatoland has been broken, and the remaining tribes have been dispersed with heavy loss. THe Swazi allies assisted the Transvaal burghers in clearing the mountains. No whites were killed. The burghers are now returning.

50 years ago

Capital For Asia

The President of the World Bank has said that it would be unrealistic to expect the bank to be able to invest large sums in member countries in Asia in the near future. He has stressed that the bank could make loans only when there was a reasonable prospect of repayment. Yet investment finance must be brought into Asia from outside if the reconstruction urgently needed there is to go forward because Asia's own finances are clearly inadequate to the task.

FINANCIAL TIMES

MONDAY DECEMBER 7 1998

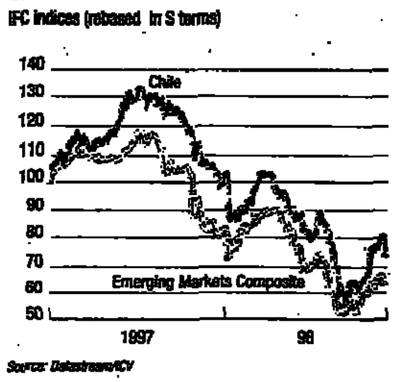
THE LEX COLUMN

Transatlantic temptations

Here we go again. After US energy companies spent £20bn ($33bn) buying up chunks of the UK electricity industry, the fight-back is under way in earnest. Multi-utility Scottish Power is poised to acquire Oregon-based PacifiCorp in an all-paper deal. But will would-be UK acquirers – National Grid and British Energy are also looking in the US – create any more value for their shareholders than their US counterparts managed?

True, the timing is good. After the botched bid for the UK's Energy Group, PacifiCorp's shares are not far off their 12-month low and the company is suffering from a management vacuum. And Scottish will bring to bear the useful experience of deregulation that PacifiCorp had hoped to acquire.

But PacifiCorp is not Scottish's first choice: approaches to US groups Cinergy and Florida Light and Power have already failed. Furthermore, there will be little by way of cost savings to offset the likely premium to PacifiCorp shareholders. Returns on Scottish Power's investment will probably struggle to match its cost of capital. If cash counter-bidders enter the fray, Scottish will not be able to slug it out for long.



General Electric/NBC

Recent comments by General Electric chairman Jack Welch have revived speculation that the conglomerate is thinking of spinning off NBC, its broadcasting arm. It is not clear that the timing is right. US television networks face gloomy prospects, with sluggish advertising demand and eroding audiences. And shorn of the Seinfeld sitcom and American football, NBC has just lost its cherished top slot in the ratings war to CBS.

Longer term, a demerger could make sense – but how would it be valued? NBC is growing more slowly than CBS, particularly since it sold its radio stations long ago. But it has an attractive portfolio of local TV stations and valuable cable franchises in CNBC and MSNBC. With estimated 1999 operating profits of $1.4bn on revenues of almost $6bn, it is much more profitable than its rival, and could be worth $15bn-$20bn compared to a current value of $23bn for CBS. A spin-off should therefore create immediate value: GE's 1999 price/earnings ratio is a sexy 28 times, but media companies are rated even more highly – CBS trades on more than 80 times earnings. More importantly, it would furnish NBC with a currency to pursue acquisitions that GE would reject as too dilutive of its earnings.

There may be another thought behind all this. When the forceful Mr Welch retires at the end of 2000, questions will inevitably arise about the logic of keeping GE together. What better legacy could he leave than to point the way and start breaking up his empire while he is still in control?

Chile

Even from a suburban mansion in England, General Augusto Pinochet has the power to trouble his country. But should investors be spooked by the UK's impending decision about whether to send the former dictator to Spain to stand trial for his alleged crimes?

An extradition ruling is likely to spark outrage in Chile. Depending on which politician one believes, the popular reaction could range from peaceful demonstrations to riots and assassinations. Gen Pinochet stirs emotions in Chile like no one else, bringing the country's deep divisions between left and right to the fore. And with Chile facing an election next year, at a time when cracks are appearing in the ruling centre-left *Concertación* coalition, the timing is particularly awkward.

This sounds like an unappetising mix for investors. Yet Santiago's stock market has gained 15 per cent since the dictator was arrested in October, as the global financial crisis has eased. In reality, economic policy has remained remarkably stable for a decade – both under Pinochet and his democratic successors. Chile has by far the highest credit rating in Latin America and is one of the few countries there to run a budget surplus. Investors in Chile have plenty to worry about: a current account deficit of almost 7 per cent of GDP, the depressed copper price and a drought. But, surprisingly, political fallout from the Pinochet affair is not one of them.

German IPOs

In future histories of German capitalism, 1998 will be seen as the year when the initial public offering went bananas. The year is smashing all records for the number of new issues, even though around a dozen companies, such as satellite systems provider Deutsche PhoneSat and biotech company MorphoSys, postponed their flotations in this autumn's market turmoil. Compared to the low of just eight IPOs in 1992 and an average of 19 a year over the past 16 years, the first 10 months of 1998 saw 58 new issues, according to Deutsche Bank. The total is expected to surpass 70 by the end of the year.

Does this signal anything more than the last throes of the bull market? While few would deny the surge in new issues has been closely correlated with the performance of the Dax, more important factors are at work. A healthy symbiosis is emerging between the venture capital and IPO markets. Providers of capital to management buy-outs and high-risk start-ups are flocking to Germany as conditions for their "exits" via flotations improve: the more venture capital, the more flotations, and vice versa. And as the pace of corporate restructuring accelerates, non-core divisions, such as Veba's Stinnes distribution business, are being prepared for full or partial flotation.

Judging by the strong average performance of this year's new issues, investor demand shows no sign of flagging. Given the benefits to companies from a higher public profile, access to an acquisition currency and market-based employee incentive schemes, 1998's record should not last for long.

CRUCIAL VOTE ON CLINTON IMPEACHMENT WOULD BE VERY CLOSE, SAY LEGISLATORS

Senate to prepare ground for trial of US President

By Stephen Fidler in Washington

The leader of the Republican majority in the Senate yesterday said the upper house would begin laying the groundwork for a trial of President Bill Clinton as legislators said an impeachment vote in the House of Representatives would be very close.

"I think the Senate will have a trial," Trent Lott, the Senate majority leader, told NBC Television's Meet the Press. "We will begin to prepare for that if the House votes articles of impeachment."

The likelihood that Mr Clinton will become the second president in US history to be impeached has grown over the last week. Many Republicans reacted adversely to the way the president answered 81 questions put to him by the House Judiciary Committee, which is considering charges against him connected with his affair with Monica Lewinsky, a former White House employee.

Christopher Shays, a Republican Congressman from Connecticut, described Mr Clinton's response to the questions as "outrageous". He added: "He still doesn't get it. He still doesn't tell the truth."

Mr Clinton's lawyers asked late on Friday for three or four days to defend the president before the judiciary committee this week, a request being considered by the chairman, Henry Hyde. But Mr Hyde has indicated he wants a vote in the committee by Saturday at the latest. This would clear the way for a vote on the House floor on impeachment by next week. If this passes to the Senate, a trial would be likely early in January, legislators said.

While many legislators insisted the vote on the House floor would be close, Peter King, a Republican Congressman from New York, said there would be 15 or 20 republicans who would vote No to impeachment. He told CBS's Face the Nation: "Now, obviously, this could be fluid. This can all change in the next 10 days, but right now I still believe that if there were a censure vote allowed on the House, you would find 15 to 20 Republicans voting for it, and then voting against impeachment." With Democrats estimating a maximum of five from that party voting for impeachment, the president would just escape being impeached.

However, one central question remained – whether the Republican leadership in the House, in particular the majority whip, Tom Delay, who is handling the issue, would allow a censure vote.

The most potentially damaging charges against Mr Clinton relate to perjury. Asa Hutchinson, a Republican member of the judiciary committee, said: "Obviously perjury is what the focus is. That's what the debate is, and probably would bring the most votes.

"But I think you have to look at the obstruction of justice and the very troubling aspects of that – the hiding of the gifts that are under subpoena. So I think that will be closely debated as well."

Also to be considered is an abuse of power charge against the president.

Trapped by a vacuum, Page 16

Canada delays trade law in magazine advertising dispute

By Edward Alden in Toronto

The Canadian government has delayed the passage of controversial legislation that threatens to fuel a trade confrontation with the US.

The Liberal government has said the legislation, which would prohibit Canadian advertising in certain foreign-controlled magazines and is intended to protect Canadian-owned publications, is one if its highest priorities.

But the bill, which needs only a final reading before passage by the House of Commons, has been left off the government's priority list for the last week before the House goes into recess for the year.

That means it will not be passed before February at the earliest. Jean Chrétien, prime minister, is also understood to be considering proroguing parliament, which would mean all bills currently on the order paper would die. Under the legislation, introduced in October, the government would levy fines of up to C$250,000 (US$163,000) against publishers who sell advertising in separate editions of foreign publications aimed at a Canadian audience. The legislation is designed to protect advertising revenues for Canadian magazines.

Canada lost a World Trade Organisation ruling last year on a US challenge against similar restrictions, but insists the new legislation would comply with the WTO decision.

The US, however, is threatening retaliatory sanctions on Canadian imports if the legislation is approved. The proposed sanctions list is understood to target between US$70m and US$140m in Canadian exports in a wide range of sectors, including steel and agriculture.

Canadian officials sought to downplay the significance of the delay. An official with the Liberal House leader's office said there was simply too little time before the end of the session. But an informed industry source said the threat of US sanctions was causing Canada to reconsider.

Sheila Copps, Canadian heritage minister, "had a mandate from Cabinet to see how far she could get, but once significant opposition was encountered she'd have to pause and reconsider," he said. "The brakes have been put on."

Francois de Gaspé Beaubien, a representative for the Canadian magazine publishers, said he had spoken on Friday to Ms Copps and did not "have any worries that the Canadian government is having a change of heart".

The Canadian decision to delay the magazine legislation comes on the heels of an agreement on Friday over agricultural trade, in which Canada successfully resisted US demands for an audit of grain pricing by the Canadian Wheat Board, the state trading monopoly that US farmers claim is dumping wheat on to the US market.

CONTENTS

UN head Kofi Annan met Muammer Gadaffi, the Libyan leader, but did not secure a timetable for trial of two Lockerbie suspects. Page 6 CNN

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Surveys: details of forthcoming editorial surveys.
http://www.ft.com/newspaper/2366.htm

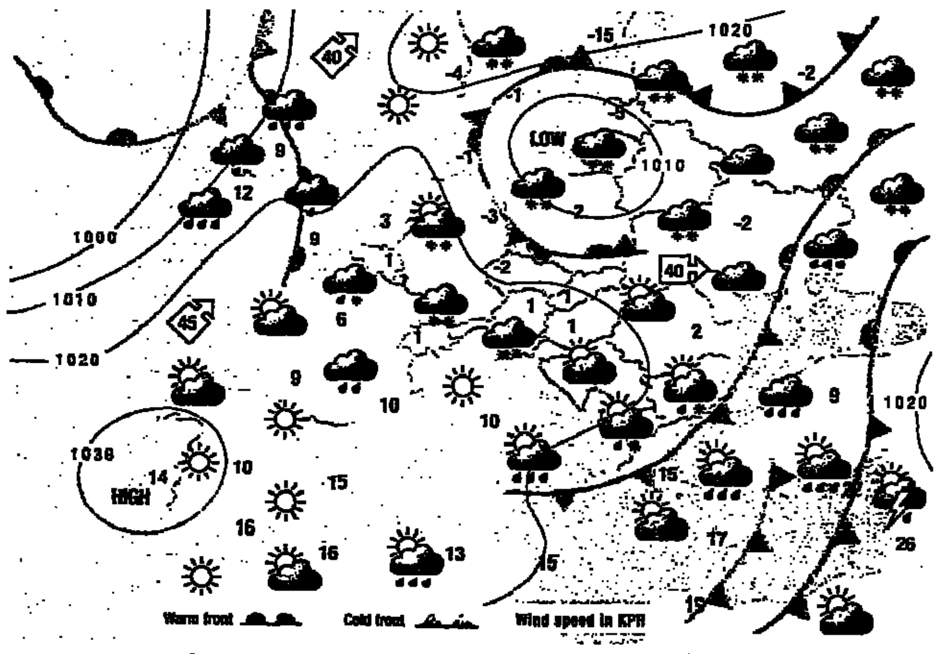
FT WEATHER GUIDE

Europe today

Eastern and central England will start cold with light snow flurries or patchy freezing rain. However, western areas, along with Wales, will be milder with rain spreading from the west later in the day. Northern Ireland and Scotland will become wet and windy, but eastern Scotland will start cold with some early snow.

Five-day forecast

North-western and central areas will have some snow but that will turn to rain as it becomes milder. Heavy showers and thunderstorms will clear from the eastern Mediterranean by the weekend, and the Iberian peninsula will have showers in the north-west. Scandinavia and the north-east will stay wintry.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	28
Accra	Fair	32
Algiers	Fair	15
Amsterdam	Sleet	3
Athens	Fair	15
Atlanta	Fair	25
B. Aires	Fair	24
B.ham	Shower	9
Bangkok	Fair	34
Barcelona	Sun	12
Beijing	Cloudy	-1
Belfast	Rain	10
Belgrade	Fair	2
Berlin	Snow	-3
Bermuda	Fair	25
Bogota	Thunder	20
Bombay	Sun	33
Brussels	Sleet	1
Budapest	Snow	1
C.hagen	Snow	-1
Cairo	Fair	27
Caracas	Thunder	31
Cardiff	Cloudy	10
Casablanca	Sun	17
Chicago	Fair	5
Cologne	Snow	1
Dakar	Fair	25
Dallas	Sun	14
Delhi	Sun	28
Dubai	Sun	29
Dublin	Rain	12
Dubrovnik	Sun	2
Edinburgh	Rain	7
Faro	Sun	15
Frankfurt	Snow	1
Geneva	Sleet	1
Gibraltar	Sun	16
Glasgow	Rain	9
Hamburg	Snow	-1
Helsinki	Snow	-5
Hong Kong	Fair	18
Honolulu	Fair	27
Istanbul	Shower	8
Jakarta	Thunder	31
Jersey	Cloudy	12
Johannesburg	Fair	25
Karachi	Sun	30
Kuwait	Sun	24
L. Angeles	Sun	18
Las Palmas	Shower	22
Lima	Fair	23
Lisbon	Sun	14
London	Rain	9
Lux.bourg	Snow	1
Lyon	Snow	0
Madeira	Fair	20
Madrid	Sun	10
Majorca	Fair	15
Malta	Shower	15
Manchester	Rain	9
Manila	Shower	29
Melbourne	Fair	26
Mexico City	Fair	23
Miami	Fair	29
Milan	Sun	9
Montreal	Shower	13
Moscow	Snow	-2
Munich	Snow	0
Nairobi	Fair	27
Naples	Fair	10
Nassau	Shower	29
New York	Shower	21
Nice	Fair	10
Nicosia	Shower	22
Oslo	Sun	-4
Paris	Sleet	6
Perth	Fair	31
Prague	Snow	-2
Rangoon	Fair	34
Reykjavik	Rain	9
Rio	Thunder	30
Rome	Sun	10
S. Frsco	Fair	13
Seoul	Shower	5
Singapore	Shower	29
Stockholm	Snow	-1
Strasbourg	Snow	0
Sydney	Shower	24
Tangier	Sun	16
Tel Aviv	Sun	26
Tokyo	Rain	18
Toronto	Shower	12
Vancouver	Rain	8
Venice	Sun	5
Vienna	Snow	1
Warsaw	Snow	-2
Washington	Fair	24
Wellington	Shower	18
Winnipeg	Cloudy	-3
Zurich	Snow	1

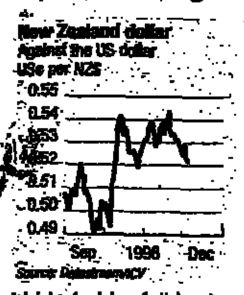
FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 MONDAY DECEMBER 7 1998 Week 50

INSIDE

Reed feels pressure globally

Reed-Elsevier, the Anglo-Dutch publishing group, last week shocked analysts with a profits warning. The litany of difficulties in its statement included everything from exhibitions in Asia, the non-renewal of subscriptions to science publications, through to UK business advertising. Margins have also been affected by its push to convert from paper to electronic distribution methods with initiatives such as Elsevier Science Direct. Page 20

NZ set to cut growth forecast again



The New Zealand government announces its budget policy statement on Wednesday. But continuing political instability in the country means the market is likely to ignore it. The statement is usually published in February or March, but the government has rushed it out ahead of time in a bid to hold a full budget early next year. The statement will further cut the government's forecasts for growth over the next two years. This is likely to further drag down the New Zealand dollar, one of the worst-hit currencies among the developed economies. Page 30

Renault expected to win Dacia bid

Renault could mark a further step in its international expansion when bids close today for the purchase of 51 per cent of Dacia, the Romanian carmaker, in eastern Europe's last big motor industry privatisation. The French group is the obvious candidate to take control of Dacia, whose range is largely limited to a model based on the Renault 12. Page 21

Central and eastern Europe look up

This summer's financial crisis confirmed that falling emerging markets tend to behave like objects in a vacuum: they drop at the same rate regardless of their differences. It is only since the markets bounced that their trajectories have begun to diverge. The exchanges of central and eastern Europe have recovered faster in the past two months than those in Latin America and are now driven to a much greater degree by their own fundamentals. Page 22

Indian summer for convertible bonds

The convertible and exchangeable bond markets are enjoying something of an Indian summer. November witnessed a rush of big, well-received deals from European companies and the trend has continued into this month, while the US market is also slowly coming back to life after an exceptionally quiet period since the late summer. Page 24

European markets look for respite

European stock markets had so much to think about last week that investors could be forgiven for wishing life were a little quieter. This week might provide some respite, allowing time to consider whether Thursday's co-ordinated rate cut by Europe's central banks or growing worries about a fall in corporate earnings should set the tone for markets. Page 31

FT GUIDE TO THE WEEK

– full listings Page 40

LATIN LESSONS
Trade prospects for the Caribbean and Central America will be reviewed over four days in Miami by the region's heads of government, bankers, economists and business leaders, starting on Tuesday. They will discuss how to cope after the Asian economic crisis.

CIS SUMMIT
Depending largely on the state of health of Boris Yeltsin, the Russian president, a summit meeting of the Commonwealth of Independent States is scheduled for Friday.

CLINTON GOES TO MIDDLE EAST
Bill Clinton, the US president, travels to the Middle East on Saturday for meetings with Benjamin Netanyahu, the Israeli prime minister, and Yassir Arafat, the Palestinian leader.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

UBS puts trade arm up for sale

Merged group wants to focus on investment banking

By Jean Eaglesham in London

UBS, the Swiss banking group, has put its global trade finance arm up for sale. The operation, with a loan book of US$5.5bn and 600 employees, is one of the biggest participants in a business hit recently by economic turmoil in Asia and eastern Europe.

UBS has earmarked the division for sale following a wide-ranging review of Warburg Dillon Read, its investment banking arm. This was triggered by the merger of UBS and Swiss Banking Corporation earlier this year. UBS, which wants to position itself as an investment bank, concluded that trade finance was too close to mainstream banking to remain within WDR.

WDR, which refused to put a price on the business, said it had held talks with potential bidders in London last week. It said: "WDR is exploring a range of alternatives. These are still at an early stage."

It is understood UBS would consider moving the business, which specialises in arranging and syndicating credit for exports, into a joint venture with another bank if it could not achieve an outright sale at the right price.

Hans de Gier, WDR chairman and chief executive, said in a memo to employees last week that: "The global trade finance sector is neither part of WDR's core business nor of the strategic business plans of the rest of the UBS group."

But the disposal seems certain to cause controversy in Switzerland, where most of the 600 employees are based.

Some trade finance operations have come under pressure following the meltdown in emerging markets this autumn. London Forfaiting, for example, which buys exporters' trade debts and sells them on to banks, reported an interim pre-tax loss of £2.57m ($4.24m) in September, caused mainly by its exposure to Asia, Latin America and Russia.

UBS refused to disclose how much of its trade finance loan book is tied up in emerging markets. But short-term trade finance transactions account for about half of all UBS's exposure to emerging markets, according to interim results last month.

The WDR website also claims the bank is a "major participant" in trade finance for emerging regions.

UBS is keen to turn its investment banking arm around after WDR ran up a loss of SFr1.2bn ($860m) in the nine months to September 30. This was because of problems with derivatives and its involvement with the Long Term Capital Management hedge fund.

Reuters to cut 1.5% off financial data costs

By John Gapper in London

Reuters, the financial data group, intends to cut costs by 1.5 per cent a year in its newly formed financial information arm as part of an effort to raise productivity and margins.

John Parcell, head of the information division, which accounts for 64 per cent of Reuters' revenues, said it also intended to abandon its policy of letting prices drift down in real terms.

Mr Parcell said Reuters did not intend to seek substantial further growth in its share of the global market for financial information, but would concentrate on more profitable niches.

"The cumulative effect of the measures we are taking will be very significant," he said.

Mr Parcell was speaking for the first time since Reuters said it would replace its regional management structure and divide its operations into financial information and products for trading foreign exchange and equities.

Reuters shares have underperformed the FTSE 100 by 45 per cent in the past two years on fears that it faces competition from rivals such as Bloomberg, and slower growth in its core revenues from supplying financial data.

Mr Parcell said Reuters had allowed real prices to drift downwards in real terms during the 1990s by deliberately not raising them to match inflation. But it would now try to keep its prices level.

He said it would also move towards a system of upgrading the Reuters 3000 terminal – its main financial data product – once a year.

The prices for these upgrades would be higher, but customers would not have to take them.

$11BN BID FOR WORLD'S LARGEST MUSIC GROUP EXPECTED TO TRIGGER MORE MERGERS IN SECTOR

Seagram offer for PolyGram gets go-ahead

By Alice Rawsthorn in London

Seagram, the Canadian drinks and entertainment group, has secured shareholder approval to conclude its $10.95bn bid for PolyGram, the world's largest music company. It plans to close the deal on Thursday.

It will then start merging PolyGram, which includes U2, All Saints and Elton John among its artists, into Universal Music, Seagram's existing music arm. The dramatic expansion of Universal, by far the smallest of the "big six" multinational music groups, threatens to shake up the $38bn global music market at a time of sluggish sales and rising piracy.

The increase in Universal's worldwide market share, from roughly 6 per cent to 24 per cent, may trigger more mergers among the big six.

After winning control of PolyGram, Seagram is expected to shed about 3,000 jobs from its 15,500-strong music workforce to attain annual savings of up to $300m. Most of the job losses will be in North America, where Universal's distribution operation will be pooled with PolyGram's.

Seagram has already drawn up plans to restructure the US record labels into four groups, mostly run by former Universal heads. It will have to make large pay-offs to departing chiefs. Danny Goldberg, head of PolyGram's Mercury Records, for instance, is believed to have three-and-a-half years left on a contract worth $3m-$4m a year.

The cutbacks should be less severe outside North America, where Universal's business is significantly smaller. Universal's distribution, currently sub-contracted to Bertelsmann, will be transferred to PolyGram's existing plants.

However, Seagram will have to complete several smaller transactions triggered by the PolyGram deal. It must decide whether to sell the remaining assets of PolyGram's film division, or merge them into Universal's film business. Further disposals could include PolyGram's minority stakes in the Really Useful Group to Lord Lloyd Webber, the founder, and in London Records, which is controlled by the family trust of Roger Ames, PolyGram's worldwide head of music.

The complex and costly process of integrating PolyGram comes at a time when Universal's film business is in disarray following the departure of Frank Biondi, president of Seagram's entertainment division, and Casey Silver, chairman of its movie studio.

All Saints: their record label PolyGram, an arm of Seagram, is set to join with Universal Music PA

Komatsu targets US construction machinery market

By Peter Marsh in London

Komatsu, the Japanese machinery maker, is expanding its North America activities by entering an important part of the construction machine market there.

The Japanese group, which has been hard hit by the Asian economic crisis, plans to sell for the first time in the US its version of the back-hoe loader. Production of these machines is dominated by Caterpillar and Case of the US and JCB of the UK.

Back-hoe loaders, which have digging and lifting equipment at the front and back, are popular in Europe and the US but are virtually unknown in Japan. They are used where flexibility is required, such as trench digging. Komatsu is the world's second biggest maker of earth moving equipment after Caterpillar. Last month it reported its first interim loss, owing to a collapse in its markets in Asia following a drop in building and infrastructure development. The Y1.15bn ($9.7m) in consolidated losses, against profits of Y8.82bn in the first half last year, has strengthened Komatsu's determination to expand in Europe and the Americas. Last year these regions produced just 15 per cent of the company's Y1,104bn in sales, with most of the balance from Asia.

Growth in the construction machine business in Europe and the US has been relatively robust over the past year. In 1996, world sales of construction equipment came to about $76bn, with a quarter of demand coming from North America, and just over a third from Asia. Since then, the Asian market has fallen substantially.

Komatsu's back-hoe loaders for the US market will all be made in an Italian plant, used until now to supply the European market. The plant – Komatsu's worldwide development centre for back-hoe machines – is one of three the company operates in Europe, where it has spent some $170m since the mid-1980s.

Komatsu aims to sell about 1,000 back-hoe loaders next year in the US, compared with virtually nothing this year. It hopes to win about a tenth of the US market.

RICHARD WATERS
GLOBAL INVESTOR

Paying for shop therapy

Will somebody else out there start spending soon? Please?

These days it sometimes feels as though Americans are the only spenders left. US domestic demand has become the antidote to the world's economic malaise. Send us your tired, your poor and your huddled masses, but above all send us your Hitachis, your Hibachis and your Hyundais.

The shoulders of the US consumer are not broad enough to carry the burden indefinitely. The side effects of this consumer boom could leave a nasty headache when the party is finally over. And that could make the end of the bull market, when it comes, a very unpleasant affair.

The dangers of the US consumer boom are outlined in a paper* today by Tim Congdon, formerly one of the "wise men" appointed by the UK Treasury to advise on monetary policy.

The argument runs as follows. To help US consumers soak up some of the world's excess supply of things such as television sets, barbecue grills and cars, the Federal Reserve has cut interest rates further than it would otherwise think prudent. The extra liquidity in the system has driven share prices to high levels, which has in turn made consumers feel wealthy enough to go out and spend.

The problems with this shot in the arm to the world economy are the imbalances it creates. The US consumer boom is set to send the current account spiralling down, says Mr Congdon. This year's deficit, equivalent to 3 per cent of gross domestic product, may be smaller than the 3.6 per cent of GDP seen in 1987, but the last year of the 20th century could also bring its biggest current account deficit, in terms of GDP.

There is an extra twist to this deficit that makes it potentially more dangerous than 1987. Then, the US was still a creditor nation. The returns it earned on its overseas investments helped offset the impact of its trade deficit, taking pressure off the current account.

These days, the US is a debtor. Rather than investment income flowing in, it flows out in the form of debt service. As long as there is no trade surplus to balance the outflow, the debt keeps piling up. As Neal Soss, chief economist at Credit Suisse First Boston in New York, says: "It accumulates, and then it compounds, and then it gets really big."

How big is anyone's guess. But extrapolating from current trends suggests the US will be a basket case by the year 2010, according to Mr Congdon. Its foreign liabilities could by then be 50 per cent larger than its foreign assets – the sort of situation found in what he calls "semi-bankrupt developing countries".

Somewhere along the way, foreign investors would have had their fill of dollars and bond yields would have had to rise sharply to keep the money flowing in. Also, to balance the drain on the investment account, the trade deficit would eventually have to turn into a surplus.

That would mean squashing domestic demand, something that could only happen by damping the wealth effect – and that means lower share prices, says Mr Congdon. The longer the deficit piles up, the bigger the correction needed.

As predictions about the real world go, long-term extrapolations are usually of little worth. Whatever happens over the next 12 years, it will probably not involve an endless repetition of what has happened in the past 18 months. But such exercises do have their uses in illuminating the limits of current policy.

Unfortunately, Alan Greenspan has few options at the moment. That makes last week's European rate cuts a welcome relief. Perhaps other nations will eventually help to take up some of the slack. Indeed, they might have been forced to act sooner if Mr Greenspan hadn't been so accommodating with US monetary policy, says Mr Congdon.

Mr Soss says: "Right now, the world needs large current account deficits in the west to support large current account surpluses in Asia." The US deficit may well become the next big problem or the one after that, he adds, but "the world is not ready for the US to adopt austerity now".

Let the bull market continue – only don't think it will last forever.

*'Totally Unsustainable', Monthly Review. www.lombard-st.co.uk

ELECTRICITY DEAL WILL CREATE ONE OF WORLD'S BIGGEST MULTI-UTILITIES WORTH ABOUT £12BN

Scottish Power/PacifiCorp close to merger

By Andrew Taylor, Utilities Correspondent

Scottish Power of the UK and PacifiCorp of the US were last night close to agreeing merger terms to create one of the world's biggest multi-utilities with a combined market capitalisation of about £12bn.

Scottish Power plans to issue US shares, in the form of American Depository Receipts worth $7bn-$8bn (£4.2bn-£4.8bn), to buy PacifiCorp which has long-term debts of $4.8bn and nearly $600m of outstanding preferred stock.

It would be the first time a large UK utility has succeeded in concluding a deal with a big US power company. Scottish Power, supplies electricity, gas, water or telecommunications services to 5m UK homes. PacifiCorp, based in Portland Oregon, supplies electricity to 1.5m customers in six states in the west of the US. It also an electricity distribution business in Victoria, Australia. Although the deal will be described as a merger, Scottish Power will be the dominant force. The combined business will retain the name Scottish Power and have its headquarters in Glasgow.

Ian Robinson, Scottish Power's chief executive, will become chief executive of the merged group with PacifiCorp directors joining the Scottish Power board.

Any deal will need to be approved by each of the US state electricity industry regulators. It must also overcome US national legislation and regulations restricting foreign and inter-state ownership of electricity companies. This could take a year.

British electricity companies have found it difficult to break into the US power sector, which is in the process of being liberalised.

Attempts earlier this year by Scottish Power to merge with Florida Progress and Cinergy, the Ohio based energy group, failed.

PacifiCorp shares on Friday rose 1\frac{1}{16}$, or 6.75 per cent, valuing the group at $6.17bn.

The US group was strongly criticised by shareholders after it sold its telecommunications interests to buy Energy Group of the UK only to be outbid by Texas Utilities. Fred Buckman, PacifiCorp's chief executive, was ousted following the failed bid for Energy.

Keith McKennon, chairman and caretaker chief executive of PacifiCorp has also been under pressure from shareholders to generate shareholder value by agreeing a merger or takeover by another company.

Scottish Power had identified a US acquisition as central to its expansion plans. The company that bought Manweb, the Merseyside and north Wales power supplier, for £1.1bn in 1995 and Southern Water for £1.7bn in 1996 would face serious regulatory and competition hurdles if it wanted to expand in the UK through acquisitions.

Ill-equipped PacificCorp hands over reins of power

The US group wanted to become a global force but now it will have to accept the role of junior partner, writes **Christopher Parkes**

PacifiCorp did not have to wait long. Little more than a month after it raised the white flag, surrendering its ambitions to become a force in world electricity markets, Scottish Power has ridden to the rescue.

Acceptance of its expected $7bn-plus (£4.2bn) bid will end the UK group's long search for a foothold in the US and may mark a reversal of the mostly one-way traffic of American power companies' buying assets in the UK, Australia and elsewhere.

Other recent signs of a turn include last month's $1.7bn purchase of 23 power stations in north-eastern US by Vivendi of France.

PacifiCorp's international adventures ended in April after it was run out of the bidding for Britain's Energy Group by Texas Utilities. Its next move was retrenchment. Plans to sell all businesses other than its electricity operations in the west, and Powercor, its Australian distributor, were announced in October.

Its main remaining assets, assuming Scottish Power continues the disposals, will include power plant with more than 10,000 megawatts of capacity and about 250m recoverable tons of coal in mines located close to its power stations in Wyoming, Utah and Washington. It supplies power to 1.4m US consumers and has 550,000 customers in Australia.

Although its service area reaches only into the northern parts of California, the most liberalised market in the US, and is focused mainly in Utah and Colorado, it seems well-positioned in the fastest-growing part of the country.

But it now appears that it was not well-equipped to take part in the rush to expand overseas led by the likes of Duke Energy and Enron. Its business experience had been limited mainly to small deals, and its main operations were in sprawling markets comprising many communities.

Like its larger rivals, PacifiCorp entertained ideas of buying into the UK to gain experience of operating in a deregulated market in preparation for change in the US.

Now, experience will come packaged in the form of Ian Robinson, Scottish Power's chief executive and his board. Over on the east coast, Virginia Power chose voluntarily this year to import the knowledge considered necessary in the changing US market when it brought in East Midlands Electricity's Norman Askew as chief executive.

When Keith McKennon, PacifiCorp's new chairman, unveiled his retrenchment strategy in October, he admitted the global ambitions had been misguided.

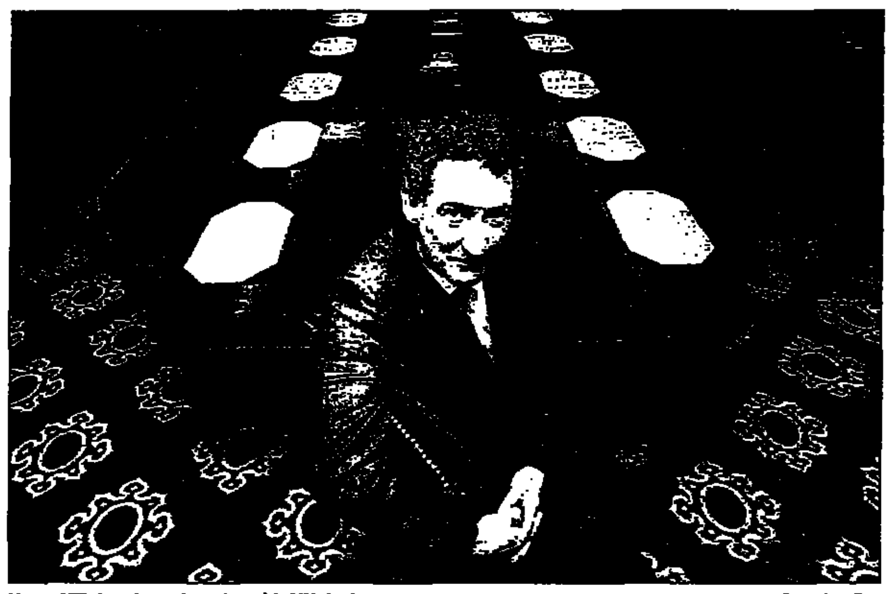
"We've spent a lot of time and money trying to transform ourselves . . . I don't think we needed to be transformed."

But change is coming quickly to US markets: even though the legal processes are still confused in many states, assets are changing hands at record pace. Many long-time utility executives, used only to working in regulated markets, are finding it difficult to adjust.

Mr McKennon is only one of many likely to discover that transformation might be handled more effectively by those who have been through the process.

Investor pressure on Countrywide

By Jim Kelly



Harry Hill: has been in talks with UK Active Brendan Corr

Countrywide Assured, the underperforming financial services and estate agency group, has come under pressure from UK Active Value Fund, the investor group, to split the business into two separately quoted companies.

UK Active, led by Julian Treger and Brian Myerson, is understood to have built up a stake in Countrywide of just over 3 per cent and has held talks with board members including Harry Hill, chief executive.

But while Mr Hill is understood to be considering a wide range of options to improve Countrywide's performance, the board is said to be doubtful that UK Active's plan can be executed without damaging its growing insurance business.

UK Active – which supports the management team – wants one company to embrace the 750-branch estate-agency chain which includes Bairstow Eves, John D Wood, and Mann & Co.

The other would concentrate on the growing life assurance business – which is sold through the estate agency chain. The two companies would then be bound together by a cross-marketing agreement. "But splitting them would sever the umbilical cord. If you don't sell houses you don't do the business. The life business is growing but it is still at an early stage. Perhaps this is something for the future," said one analyst.

In August, Mr Hill said the company was studying share buy-back plans to help reverse a sharp underperformance in its shares. It also wanted to be classified as a life assurer or financial services group, rather than a property company.

Pre-tax profits fell to £18.9m (£24.2m) for the six months to June after its estate agency chain, the largest in the UK, fell into the red and it was hit by new pensions mis-selling provisions and conveyancing start-up costs.

Months of underperformance culminated in a drop in the share price from 137p to 93½p at the time of its June demerger from Hambros. This valued the company at £332m and put it on a prospective multiple of just eight times 1998 earnings.

Underlying profits were steady at £21.4m – against £20.8m – as life assurance, financial services and surveying contributions offset an £800,000 estate agency loss. The previous year had been the only one of the 1990s to see the agency make a profit.

At that time Mr Hill played down suggestions of a buy-out as the group's life company was not yet producing the cash flow needed to service the buy-out debt.

Greenalls close to deal on pubs with Nomura

By David Blackwell

Greenalls, the pubs and hotels group, is in talks with Nomura about the sale of its 1,400 franchised and tenanted pubs.

The discussions with the Japanese investment bank – already the UK's largest landlord – are understood to be at an advanced stage. A deal might be completed ahead of Greenalls annual results on Wednesday.

Neither Greenalls nor Nomura would comment on the deal. But it would appear set to be the latest move in the consolidation sweeping through the industry.

The Greenalls division, consisting of 860 franchised and 540 tenanted pubs, was put up for sale a couple of months ago, and has been valued at up to £400m. But the planned disposal was thrown into disarray last month after the withdrawal of two leading bidders – Charterhouse Development Capital, the venture capital business that is part of the Charterhouse investment bank, and Punch Taverns, the private company that bought 1,455 pubs from Bass last year.

Nomura last week put most of its pubs into a company that will seek a stock market quote in three years. Its Unique Pub Company is the biggest tenanted group in the UK, with 2,600 tenanted pubs and assets of £850m.

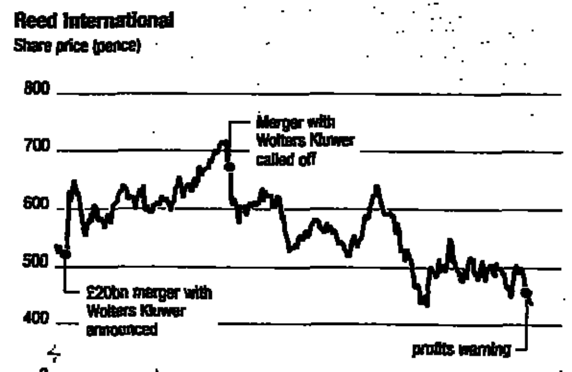
The Japanese bank is also poised to securitise the tenanted estate of Martson, Thompson & Evershed this week if the Burton-based brewer's shareholders give the go-ahead on Wednesday. However, rival brewer Wolverhampton & Dudley will withdraw its £267m bid for Marston if the securitisation goes ahead.

Greenalls, which in September warned of a poor summer, is expected to announce annual profits of about £158m (£138m) on Wednesday. The disposal of the tenanted inns would allow the group to repay some debt and increase investment in its hotel and health club interests. Gearing is about 60 per cent.

Latest chapter in Reed's history does not make happy reading

The Anglo/Dutch publisher has not had the best of years, says **John Gapper**

Reed International
Share price (pence)



Source: Datastream/ICV

The Labour party's theme song at the general election in 1997 was "Things Can Only Get Better". That adage does not seem to apply to Reed Elsevier's publishing operations.

After the collapse of its planned merger with the Dutch publisher Wolters Kluwer earlier this year, and problems with its Reed Travel division, the Anglo-Dutch combine last week shocked analysts with a profits warning.

"We thought the worst message had already been delivered, so this is quite a surprise. It seems like everything across the board is having problems, with one or two exceptions," says Meg Geldens, a Merrill Lynch analyst.

Mark Armour, Reed Elsevier's finance director, argues that it is a matter of degree rather than the emergence of a new factor. "We pointed to these factors in the interims, but since then conditions have weakened," he says.

There was a litany of difficulties in Reed Elsevier's statement, covering everything from exhibitions in Asia, to non-renewal of subscription to its science publications, to UK business advertising.

Indeed, Wolters Kluwer may be breathing a sigh of relief over the fact that the merger collapsed. Its shares have outperformed those of Elsevier – the Dutch half of the combined group – this year.

One reason for that is Wolters Kluwer's strengths are in European legal publishing, and it does not have exposure to Reed Elsevier's more troubled markets – notably business and scientific publishing across the world.

Yet Reed Elsevier's problems also throw some doubt on the rationale for the group's move into "must-have information," leaving behind its consumer publishing roots in operations such as IPC, its former magazines arm.

It now seems there is a limit to the obligations even on university librarians to take its information. The company admits economic problems in Asia have been so severe that subscription renewals have fallen.

The operational difficulties detailed in the statement fall into two categories.

First, Reed Elsevier is facing revenue pressures across the world. Asian difficulties have caused problems in its business exhibitions arm, because companies are less willing either to take space at exhibitions or send executives.

At the same time, recruitment and display advertising for its business magazines has weakened in both the UK and US, and its US legal information operations are facing stronger competition from Thomson, the Canadian group.

Second, its margins have been affected by its push to convert from paper to electronic distribution with initiatives such as Elsevier Science Direct. This is continuing to weigh down operating results.

"We set out our stall on electronic distribution a couple of years ago, and we have been articulating the investment for some time. But we are now making it at a time of weakening in the global environment," says Mr Armour.

To this extent, the story is clear. But one unknown issue is the extent to which Reed Elsevier has been affected by its search for a new chief executive, who it wants to focus more on operations than acquisitions.

Mr Armour says this is not a factor. "I think the management is very well focused, and the search [for a new chief executive] is proceeding at the pace that we anticipated. These things take time," he says.

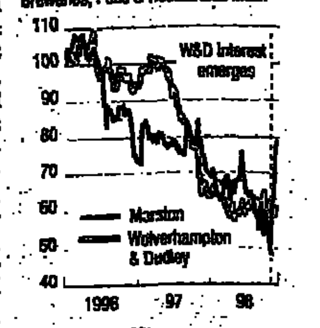
Still, the prolonged uncertainty that has hung over Reed since the failure of the Wolters Kluwer merger can hardly have helped. Heads of operating divisions could also be waiting to see what policies a new chief executive implements.

In all, these are hardly easy times for Reed Elsevier, and the new chief executive may want to go further than making existing operations perform better. However, things could well get worse first.

COMMENT

Marston

Marston/ Wolverhampton
Share prices relative to the FTSE Breweries, Pubs & Restaurants index



Source: Datastream/ICV

Shareholders in Marston, Thompson & Evershed face a tricky decision this week. On the table is a hostile £267m bid from Wolverhampton & Dudley. But at less than 12 times last year's earnings, they understandably would like a top-up. The trouble is they must vote on the target's main line of defence – to securitise its tenanted pubs – on Wednesday. If they approve, it is now clear that W&D will drop out. If they demur, the neutering of Marston's management will reduce the prospect of the bid being raised. The combatants have radically different strategies. W&D believes in integrated brewing and pub-ownership. Marston is not so keen on traditional pub ownership, preferring to invest in branded bars – notably the Pitcher & Piano chain. W&D has an immediate advantage in being able to offer at least £12m savings from combining similar portfolios. Marston's strategy, born out of a small part of its portfolio, will bear fruit only later and carries more risk.

The bottom line is that shareholders want more for Marston. W&D's promised savings, taxed and put on a multiple of eight, are worth about £50m after costs. Little more than half that would increase the offer by 10 per cent.

Investors confident of getting that should have no problem voting "No" on Wednesday. W&D has done well to play hardball with Marston's management: it should now play a little softball with investors.

British Aerospace/Dasa

A British Aerospace/Dasa merger remains the likeliest outcome of this round of European defence consolidation. But several obstacles to the Anglo-German combination still need to be resolved. If Dasa's owner, DaimlerChrylser, ends up with about 35 per cent of the merged company, might it have to make a tender offer for the rest of the shares? And will the German government really accept the company being run by BAe's management team?

Furthermore, questions of tax and domicile are still troublesome. And to cap things off, France's Aerospatiale is still self-destructively threatening to hold Airbus' restructuring to ransom unless BAe/Dasa accord it equal economic power in the new Airbus.

No wonder the General Electric Company is so fastidiously keeping all its options open.

NEWS DIGEST

ELECTRICITY

National Grid makes US link for Brazilian deal

National Grid, which owns the English and Welsh high voltage electricity transmission network, and Sprint the US telecommunications company are considering spending more than $1bn (£600m) to develop a new national telecoms network in Brazil.

The Brazilian government has asked companies to bid for a national licence and four regional licences to expand the country's telecomunications system which currently has only 10 telephone lines for every 100 people. National Grid and Sprint are thought to be each prepared to invest £100m of equity over several years in the joint venture which would bid for the new national licence. The winner would be expected to compete with the privatised Brazilian telecommunications operator Telebras. National Grid and Sprint may invite local investors to join the consortium if it is successful. National Grid has a 74 per cent stake in Energis, the UK telecommunications company which it developed by stringing almost 6,000km of fibre optic cable largely along its national power pylon network. Its Energis stake is estimated to be worth more than £2bn.

David Jones, chief executive, has said that National Grid was interested in developing similar Energis style operations in other countries. It has a memorandum of understanding with Electrobras, Brazil's state-owned power company, to investigate possible new electricity transmission schemes in the country. Another possibility would be to piggy-back an Energis style fibre-optic telecommunications system onto the Electrobras transmission network.

National Grid said there was "more value" to come from Energis in the UK. Once that had been achieved it would be prepared to sell its stake "within three to five years". The company, which saw pre-tax profits dip to £220.9m (£225.2m) during the six months to September 30, has also expressed an interest in buying a 51 per cent stake in National Air Traffic Services, the air traffic control arm of the Civil Aviation Authority, and would also like to buy a US transmission business, expected to cost not less than £1bn, by the end of next March. **Andrew Taylor**

PHARMACEUTICALS

SB seeks drug approval

SmithKline Beecham has applied for European marketing approval for Avandia, its new diabetes drug.

Analysts say Avandia, which has been tested on 4,000 patients with type II (adult onset) diabetes, is potentially the biggest seller in SB's development pipeline; more than 100m people worldwide have type II diabetes and the number is expected to double over the next 15 years.

SUPPORT SERVICES

Planit makes £6m US buy

Planit Holdings, the computer software company, is buying Cabinet Vision, a US software products provider, for up to $9.82m cash. A placing of 8.33m new ordinary shares at 24p each, fully underwritten by Beeson Gregory, to raise £2m before expenses, will partly finance the buy. The balance will come from the company's own resources.

TELECOMMUNICATIONS PRICE CUTS WILL REDUCE REVENUES THOUGH VOLUMES MAY RISE

Cheaper calls to hit Telekom

By Graham Bowley in Frankfurt

Deep reductions in telephone charges at Deutsche Telekom, Europe's biggest telecommunications group, will cut revenues by DM5bn-DM6bn ($3bn-$3.6bn) but could be compensated for by higher volumes, according to Ron Sommer, the chief executive.

The German group would press ahead with long-standing plans to cut a further 20,000 jobs from its workforce by 2000, Mr Sommer said. He signalled that the company would consider acquisitions or mergers with other telecommunications groups, though the company said it had no immediate plans for takeovers.

This follows recent bouts of consolidation in other areas of German industry, including the merger of the pharmaceuticals group Hoechst with Rhône-Poulenc of France and the takeover of Bankers Trust of the US by Deutsche Bank. Mr Sommer said Deutsche Telekom wanted to become a global player.

"In order to become a global player, we are not ruling out acquisitions or mergers with other companies," Mr Sommer said in an interview in yesterday's Bild am Sonntag newspaper.

Telekom unveiled price cuts of up to 63 per cent last month in retaliation against an attack by new competitors on the market share of the partially privatised company.

Mr Sommer said: "Statistically speaking the price cuts will cost us DM5bn-DM6bn, but we hope to be able to offset it as much as possible through a rise in volume and cost cuts."

The price reductions are due to come into effect next month, once they are approved by German regulatory authorities.

In 1995, Telekom announced plans to cut its workforce to about 170,000 by 2000.

The group has already reduced jobs by some 40,000 but is to make a further 20,000 reductions by 2000. At present it has a workforce of about 190,000.

Deutsche Telekom is 74 per cent owned by the German state. It was plunged into controversy last month by claims that it was being protected from outside competition by the government.

The economics ministry triggered protests after it shelved decisions expected to reduce the prices Telekom could charge competitors for access to some parts of its network.

Telekom said that preferential interconnection charges for its rivals gave an unfair advantage to competitors with little infrastructure of their own. The government had raised concerns about the impact of price competition on investment spending.

Pinault's pact augurs well for his other business interests

Politics aside, the deal with the Bouygues brothers has a number of potential benefits

By David Owen in Paris

You do not have to be a total cynic to sense that politics may have entered François Pinault's thinking last week while negotiating a shareholders' pact between Artémis, his family holding company, and Martin and Olivier Bouygues.

The agreement, sealed on Friday, covers the combined 30.5 per cent stake in Bouygues, one of France's premier industrial empires, held by Artémis and SCDM, the Bouygues brothers' vehicle.

It came less than a week after the secretive financier, who is generally reckoned to be France's richest man, moved unexpectedly to centre-stage in the battle for control of the family-run construction, TV and telecommunications group, by buying 12.6 per cent of its capital from Vincent Bolloré, his fellow Breton.

One of the Bouygues group's choicest assets is its 39 per cent stake in TF1, France's main "generalist" television channel with a 35 per cent share of the national audience.

Mr Pinault would be doing a big favour to his friend Jacques Chirac, France's Gaullist president, if he were in a position to help to secure him favourable TV coverage in the presidential campaign that nearly everyone expects him to mount in 2002.

It has not passed unnoticed in this regard that the new pact has a three-year term – that is to say until December 2001.

> **One can imagine it doing no harm to other Pinault interests for Artémis to have its ear close to the ground at TF1 and France's third mobile telephone network**

But it would be naive to think that a businessman of Mr Pinault's shrewdness and standing would invest FFr3.8bn ($676m) on Mr Bolloré's Bouygues shares without what he perceived as sound business reasons for doing so.

In sheer financial terms, the risk for Mr Pinault seems limited: analysts have estimated the fair value of Bouygues at about FFr1,250 a share, comfortably above the FFr1,150 Artémis paid.

Moreover, in spite of strong criticism by Mr Bolloré and others of the group's ambitious strategy, the individual operating units are widely acknowledged to have high-calibre staff and be technically at the forefront of their respective industries.

The core construction business, furthermore, looks ripe for an upturn after a difficult period.

Nor is it difficult to think of longer-term strategic reasons why Mr Pinault might be interested in Bouygues's communications holdings.

Many of his other interests – whether the 42.6 per cent-owned Pinault-Printemps-Redoute retail empire or Christie's, the auctioneer, or the Stade Rennais football club, which is currently third in the French first division – are in businesses which must be gauging how the interactive electronics revolution of the future is going to change their environment.

PPR this year launched a mass-market telephone company designed to offer low-price calls and a range of related services.

One can imagine it doing no harm to these other Pinault interests for Artémis to have its ear close to the ground at TF1 and France's third mobile telephone network.

This might in part explain why Mr Pinault's entourage was emphasising last week that he thought telecommunications was a good business and that he had the same "strategic vision" as Martin and Olivier Bouygues.

Mr Bolloré, for his part, argued that the telecoms business should be sold, on the grounds that the company had insufficient capital to develop all its activities at once.

Serge Weinberg, chairman of PPR, and François-Henri Pinault, son of François and chairman of Fnac, another retailer, are among the three Pinault directors earmarked to sit on the Bouygues board.

Politics, in short, may have impinged on Mr Pinault's thinking; but it does not explain why he made his move.

Renault expected to drive hard bargain for Romanian car group

The French vehicle maker is the obvious candidate to buy 51% of Dacia, whose range is largely limited to a model based on the former Renault 12, writes **Haig Simonian**

The Dacia 1310, which retails in Romania for the equivalent of about $3,300

Renault could mark a further step in its international expansion when final bids close today for the purchase of 51 per cent of Dacia, the Romanian carmaker, in eastern Europe's last big motor industry privatisation.

No details of the offer by the French group, which helped to launch Dacia in 1968, have emerged. However, Renault, which wants to use Dacia to develop a second, budget brand, is believed to have proposed an attractive mixture of cash and technical know-how to develop the group.

State-controlled Dacia is one of the biggest manufactures of vehicles in the former Communist bloc outside Russia. Output this year should rise by about 6 per cent to a record 106,000 units, says Constantin Stroe, general manager. The company has managed to remain profitable, in spite of collapsing exports and weak domestic demand, he says.

Mr Stroe, who has been with the company from its beginning, says Dacia should make about $5m-$6m this year, compared with $7m in 1997. That is a considerable achievement for an overmanned and inefficient carmaker whose range is largely limited to a 30-year-old model sold at rock-bottom prices in a country facing economic difficulties.

Dacia's most popular car is its 1310 – the former Renault 12. About 95 per cent of this year's output will be sold in Romania, where the cars retail for the equivalent of about $3,300. Such low prices have helped to maintain sales, in spite of the beleaguered economy, but the ageing product range and lower exports have convinced the company that its future depends on working with another car-maker.

"We are profitable, but the margin is very small," says Mr Stroe. "We have sacrificed margins to protect our market share. It's a difficult policy to follow – like tightrope-walking."

Dacia had nearly 87 per cent of the domestic market last year. Although sales have fallen since because of rising competition and, until recently, plentiful cheap used-car imports, it still retains more than 75 per cent. Its dilemma is that its profits are insufficient to develop new models or replace decrepit machinery.

"Based on the way Dacia has kept going for the past nine years, we reckon we can only survive another four. We simply aren't making enough money to invest in a real new product," says Mr Stroe. But while the company recognises it needs a partner to survive, potential acquirers have had mixed feelings. Mr Stroe says various leading car-makers have examined the group and requested the government's privatisation documents.

Most, however, have been put off by the likely cost and difficulty of revitalising Dacia – in spite of its resilience so far. "We need to collaborate with a prestigious partner. But while that's easy to say, we know it's hard to do," says Mr Stroe.

The main disincentive is Dacia's workforce. It had 28,000 workers last year – about three times the number Renault itself needed to build almost as many cars at its big Turkish subsidiary.

Finding alternative uses for surplus workers – and agreeing with the authorities on how to finance the restructuring – has been one of the biggest disincentives for potential buyers.

Mr Stroe says Dacia's managers and unions accept that jobs will have to go. He argues that it has already become more efficient: in 1989 Dacia had 7 per cent more workers, but built 21,000 fewer cars. In the past nine years, output has climbed from 288 cars a day on a six-day week to 453 a day on a five-day week.

"I realise we can't retain 28,000 jobs. But we have a reasonable trade union which appreciates the situation," says Mr Stroe.

Hiring has been frozen and Mr Stroe sees scope for cuts through attrition. There may also be potential to expand the car parts industry around Dacia's base at Pitesti, 110km north of Bucharest. "I'm sure the social problems won't block a solution," he says.

That could make the company quite attractive to the right buyer. Most observers see Renault as the obvious candidate because of its links with Dacia and its interest in developing a lower-priced brand.

Dacia would provide a substantial production base, with trained workers and a big domestic market.

Moreover, monthly wage rates of about $160 before tax in the motor industry mean Romania even undercuts Poland, the Czech Republic and central and eastern Europe's other car-making countries when it comes to labour costs. And after 30 years in business, Dacia has a big customer base, creating strong demand for spare parts and, possibly, goodwill for new products.

Renault is playing its cards close to its chest. Executives in Paris admit their interest, but stress the time and money required to restructure Dacia.

While the company could soldier on with its existing cars for a while, the real challenge will be to develop a new car still cheap enough for buyers in the region. So while the French seem the obvious owners, there will be some hard bargaining before any deal is done.

EMERGING MARKETS HUNGARY AND POLAND IN PARTICULAR OFFER GOOD INVESTMENT ENVIRONMENT

Central and eastern Europe look up

By Michael Peel

This summer's financial crisis confirmed that falling emerging markets tend to behave like objects in a vacuum: they drop at the same rate regardless of their differing characteristics.

It is only since the markets bounced that their trajectories have begun to diverge. The latest figures show that the exchanges of central and eastern Europe have recovered faster in the past two months than their counterparts in Latin America.

The data support the generally positive sentiments that investment strategists express about European emerging markets. "Eastern Europe is a very strong investment in terms of the macro-economic policies that are adopted there," says Matthew Merritt, global emerging markets strategist at ING Barings.

The Barings emerging market indices show that European emerging markets, excluding Russia, have risen 15 per cent in the past two months, compared with a 12.7 per cent increase in the Latin American composite index. The fortunes of the two sets of bourses have now become decoupled, says Mr Merritt, meaning that the European markets are driven to a much greater degree by their own fundamentals.

There are signs, too, that some of the states have tackled successfully the kind of corruption and excess bureaucracy that deters overseas investors from dabbling in emerging markets. "We have never had to pay off anybody," says Peter Róna, chairman of Rona & Co, which runs a Hungarian private equity fund. "There were occasions where we were given what we thought was a hint. We chose not to hear the hint and nothing very bad happened."

There is, of course, considerable variation between conditions in individual countries. The states of central and eastern Europe are so diverse ethnically, linguistically and culturally that it makes little sense to consider the area's stock markets as a single entity.

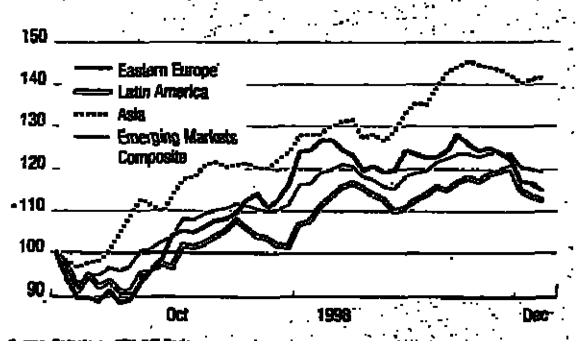
Poland, Hungary and the Czech Republic dominate in terms of market size. At the end of September, they had a combined capitalisation of about $30bn, compared with about $3bn for Slovenia, the fourth biggest bourse.

There is an even greater disparity in volumes traded. In the three months to September 10, Poland and Hungary each turned over about $30m a day, compared with $15m for the Czech Republic and well under $5m for Slovakia, the next most active.

In common with other observers, Mr Róna says Poland and Hungary stand out as offering undervalued companies and a good environment for investment.

Emerging markets: on the rebound

Indices (rebased in $ terms)



Source: Datastream/ICV; ING Barings

Companies are rated on forward multiples of 7.5 in Poland and 8.9 in Hungary, compared with 7.2 in Latin America and 13.8 in Asia excluding Japan. Consensus analysts' profit predictions seem to more than justify Hungary's premium to its central European counterpart. Earnings for listed Hungarian companies are forecast to rise more than 60 per cent in the 12 months to October next year – more than six times the growth rate predicted for Poland.

That superiority reflects in part the higher standards observed by Hungarian companies, says James Graham-Maw, global portfolio manager for Foreign & Colonial Emerging Markets. "The disclosure is as good as it is in France," he says. "We intend to reward the country [Hungary] with a higher rating than its index will give it."

The Hungarian market includes a significant number of companies that rely on technological innovation. Examples include Graphisoft, a computer software company, and Colouryte, which has devised a technique for diagnosing colour blindness.

Mr Róna says technology-based businesses have benefited from the return to Hungary of members of the country's vast diaspora. "There are tens of thousands with western university degrees," he says. "This is a phenomenal resource."

His confidence is reflected by Merrill Lynch, which recently raised its rating for Hungary from "neutral" to "outperform", to take account of the strong potential for earnings growth. It said the revision was also based on a belief that Hungary had good prospects for economic convergence with western Europe.

The economic outlook for Poland is less clear. The exchange's main index fell 3.3 per cent last week after a series of poor company results added to concerns about the level of interest rates.

Credit Suisse First Boston says that rate cuts are needed to counter industrial stagnation and a "disastrous" drop in exports over the last two months. "The possibility of an interest rate cut in December should limit further losses," it says. "But a medium-term rally is unlikely."

The company takes a more positive long-term view. It foresees a "buying opportunity" in central and eastern Europe in January as investors with high levels of cash return to the market.

That assessment is in tune with the widely held opinion that the exchanges were dragged down too far over the summer as a result of generally negative investor sentiment towards emerging markets. "A lot of huge funds and quite sober local investors have gone out of the market," says Mr Graham-Maw. "But I think convergence is much more powerful than that."

Milan SE to form alliance

By Paul Betts in Milan

Italy's privatised stock exchange is set to complete before Christmas the first step in its European alliance strategy by linking up with Paris and Madrid in the competitive fixed-income futures derivatives market.

The Milan Borsa is expected to announce a partnership between its MIF fixed-income futures exchange and the French Matif and Spain's Meff.

The partnership is expected initially to involve a new Euribor future contract based on the euro interbank rate. It is also likely to be extended to the Chicago Mercantile Exchange, which already has an agreement with the French Matif on its Globex electronic platform.

Mr Stefano Preda, chairman of the Italian stock exchange, said last month that Milan was leaning towards an agreement in the derivatives field involving not only other European exchanges but also the US.

The Milan Borsa's decision is a blow for the German-Suisse Eurex exchange, which has been attempting to set up a pan-European electronic market for derivatives. However, Milan has been unhappy with Eurex's attempt to impose its electronic system on its potential allies.

NEWS DIGEST

PROFESSIONAL SERVICES

KPMG forms link with Body Shop on reporting

KPMG, the Big Five professional services firm, will today announce an innovative link-up with The Body Shop, the cosmetics retailer, to help meet demand from companies for advice on social, ethical, and environmental reporting.

The four-year deal will see the retailer spin off its audit team to KPMG in the UK as part of a stakeholder reporting network consulting on corporate issues in 14 countries. In return KPMG will meet the retailer's global non-financial audit needs. The deal is a high-profile coup for KPMG at a time when most Big Five firms are struggling to meet demand from clients under pressure from a wide range of stakeholders – including governments, fund managers, and campaign groups.

"In five years' time it will be seen as second-rate business practice not to publish information on social and environmental performance," said Anita Roddick, founder and joint chairman of Body Shop International.

She said ignoring such issues could be disastrous and that company reputations could be destroyed in "a nanosecond" if they transgressed standards on the treatment of the environment, suppliers, and other stakeholders.

David Wheeler, head of social audit at Body Shop, will move to KPMG to lead its social auditing service within a new group – Sustainability Advisory Services (SAS). This will offer advice on risk assessment, supply chain management, social and green reporting, and help in building links with stakeholders.

KPMG's UK senior partner Mike Rake said: "The UK government has already indicated that environmental auditing is an area for companies to address." He said the deal gave KPMG an alliance with a world leader in social auditing. Estimates of the potential market vary wildly, but KPMG values fee income at £20m a year within three years in the UK alone. Several governments are putting pressure on companies to improve environmental and social policy. The UK has threatened to legislate unless the quality of green reporting improves. **Jim Kelly**

GERMAN SHARE BUY-BACKS

Reverse book-building by Kögel

Kögel, a German automotive components supplier, will today launch a DM15m ($8.95m) share repurchase programme that for the first time uses a reverse book-building process to collect offers from shareholders to sell stock back to the company within a set price range.

The move highlights the extent to which smaller German companies are prepared to follow their bigger counterparts in using recent changes to the law on share repurchases in Germany to restructure their balance sheets as a means of enhancing shareholder value.

Kögel has appointed Commerzbank to run the book-building for the buy-back programme, which represents 7.5 per cent of its share capital. Book-building will run from December 11 to 18 and the price to be offered will be in a range 10 per cent above or below the average over a five-day period before the process gets under way.

Mark Eban, global head of equity capital markets at Commerzbank, said Kögel's decision to buy back some of its shares "showed how far down the concept of shareholder value has gone in the German market".

By using a book-building process, Kögel hopes to avoid pushing up its own share price if it entered the market directly, and to treat all shareholders equally, a requirement of the German law on share repurchases, which was introduced on May 1.

At least 50 German companies have sought shareholder approval for repurchases since then. Big companies such as Schering, the pharmaceuticals group, and BASF, the chemicals giant, were among the first to take advantage of the liberalisation of the law, while smaller companies have also shown a willingness to follow suit.

Kögel will set a final price for its repurchase programme when the book-building has been completed, and all shareholders that have offered stock will receive the same price for the shares they wish to sell on a pro-rata basis. **Vincent Boland**

OIL

Financier in Total Fina pledge

Baron Albert Frère, the Belgian financier, has given a commitment not to take more than a 10 per cent stake in Total Fina, the group to be formed by the French oil company's proposed takeover of PetroFina, its Belgian counterpart, according to Thierry Desmarest, the Total chairman.

Mr Desmarest made the disclosure in an interview with Le Monde, the French daily newspaper. Mr Frère is set to hold nearly 9 per cent of the enlarged group and to become co-vice-chairman to Mr Desmarest. Total has launched an investor relations campaign to overcome lukewarm shareholder support for the proposed takeover. Doubts have arisen about the 37 per cent premium the French group is paying and the extent of possible cost savings. **David Owen, Paris**

INSURANCE

Spanish groups chosen for deal

Six Spanish insurers have been chosen for the country's largest ever single insurance deal, to take responsibility for the government's outstanding commitments to workers who lost their jobs in state-owned steel, mining, defence and capital goods companies.

The outsourcing plan involves a total premium of Pta914bn ($6.41bn), mostly payable in two instalments next year with a further instalment in 2001, to cover obligations amounting in theory to Pta1,267bn and lasting well into the next century.

Mapfre Vida, the life assurance arm of Spain's largest insurance group, Mapfre, and insurance offshoots of the BBV, Argentaria and Santander banking groups and the two largest Spanish savings banks, La Caixa and Caja Madrid, were selected by government industrial holding company Sepi to handle the programme alongside the state-controlled insurer Musini. **David White, Madrid**

NEWSPAPERS

Hollinger unit in $475m sale

Hollinger International, the US subsidiary of the Canadian Hollinger newspaper group, said on Friday it would sell 45 of its US newspaper properties for US$475m to Community Newspaper Holdings, a US publisher.

The sale, which is expected to close early next year, includes 28 daily newspapers in 14 US states. Hollinger also said it intended to acquire one daily newspaper in Illinois from the Community Newspaper group.

David Radler, Hollinger president and chief operating officer, said the sale would allow the company to concentrate on its larger newspaper properties in North America.

The sale should also help Hollinger to pay its long-term debt and finance its proposed acquisition of all outstanding shares of Southam, the Canadian newspaper group 70 per cent owned by Hollinger, for which it offered C$29 per share last week.

Earlier this year Hollinger sold 160 newspapers in its US community newspaper group for US$310m, and the current sale means it will have sold about two-thirds of its US community newspaper holdings. **Edward Alden, Toronto**

Hotel groups resume trading

By Tom Burns in Madrid

Sol Meliá and Meliá Inversiones Americanas (Mia), the two listed hotel companies controlled by the Majorca-based Escarrer family, will resume trading today after a two-week suspension.

The suspension was prompted by a controversial plan to merge both businesses and integrate them with a third firm owned outright by the family.

Spain's stock market regulator will postpone approval of the takeover bids, however, until it receives an independent appraisal of Sol Meliá, which manages 250 hotels worldwide; of Mia, which owns seven hotels in Latin America and the Caribbean; and of Inmotel Inversiones, the non-listed company which owns 73 hotels in Spain.

Analysts believe approval of the planned mergers could be delayed for up to two months and that the stocks would be initially penalised on their return to the market because of the row that caused their suspension on the Bolsa on November 23.

"This is the sort of takeover deal that the regulator has to look at very closely," said Juan Bastos, managing director of the Madrid broker Ibersecurities.

The controversy has centred on the terms of Sol Melia's share swap takeover of Mia, a company listed on the Bolsa only in April which has suffered a sharp drop in value; on reports that Inmotel Inversiones, which was to be integrated in a subsequent share transaction, could be overvalued; and on possible conflicts posed by the interests of the Escarrer family in all three companies.

In addition, the decision to bring all the Escarrer companies together in a single listed unit marks a U-turn in the group's previous strategy of segregating its different units.

"The real problem for the market is the complete change in the Sol Meliá strategy," said Juan Carlos Calvo, hotel and leisure analyst at Merrill Lynch in Madrid. "The new Sol Meliá will be a very different company, and the question is whether it will be as attractive as the old one."

Sebastián Escarrer, the group's chief executive, said the consolidation would meet investor demand for more liquid stocks.

Boost for vehicle industry in Japan

By Alexandra Harney in Tokyo

Mini-vehicles recorded their second consecutive double-digit sales increase in Japan last month, giving the car industry a welcome boost as demand for full-size cars and trucks continued to collapse, according to an industry association.

Sales of mini-vehicles, the inexpensive compact cars launched in response to a change in government regulations in October, jumped 30.2 per cent to 169,673 units in November, according to the Japan Mini-Vehicle Association.

The sector's steady expansion underlines the difficult conditions facing Japanese car manufacturers as consumers scale back big purchases amid the worsening recession. The consequences for car companies are sagging cash-flow, declining capacity utilisation rates, and rising debt levels.

Sales of domestic full-size vehicles tumbled 15.9 per cent, the 20th consecutive month of shrinking vehicle sales. Imported car sales slipped by 17.1 per cent year-on-year to 22,250 units. Truck sales were the hardest hit, slowing 54.5 per cent, an importers' association said last week.

Within mini-vehicles, sales of passenger vehicles posted the strongest growth – up 72.3 per cent on the same period last year.

Mitsubishi Motors and Fuji Heavy Industries showed the largest gains, lifting sales 63.9 per cent and 43.1 per cent, respectively.

On imports, the figures revealed that US and European car makers performed unevenly. While most German groups, Mercedes-Benz and BMW in particular, bucked the trend and expanded sales volumes last month, US manufacturers showed huge declines. Sales by US makers plunged 25 per cent overall. Ford Motor suffered a 60 per cent decline.

Italian car sales surged 36 per cent last month, but sales for the 11 months since January were flat.

Analysts said that Japanese consumers, facing salary cuts and the possibility of losing their jobs, were looking for value and brand distinction.

"Mini-vehicles are new, sporty, cheap, and there is a slew out on the market – that's why they're selling," said Christopher Redl, analyst at Morgan Stanley Dean Witter.

INTERNATIONAL BONDS HIGH CREDIT QUALITY MAKES EUROPEAN SECTOR PROVE THE MOST RESILIENT

Indian summer for convertibles

By Vincent Boland

It is very late in the year, but the convertible and exchangeable bond markets are enjoying something of an Indian summer.

November witnessed a rush of big, well-received deals from European companies and the trend has continued into the early days of this month, while the US market is also slowly coming back to life after an exceptionally quiet period since the late summer.

This latest burst of activity – which has included large, liquid bonds from the likes of France Telecom, Usinor and Mediobanca among European issuers – coincides with the surprisingly quick rebound in stock markets.

Global issuance had been very strong in the first half of this year, but the Russian and emerging markets crises took their toll, and the convertible/exchangeable market sank along with equities.

There were sharp regional variations, however, and analysts say the European sector was the most resilient because of its high credit quality relative to other convertible markets.

The advent of European monetary union next month has also been a key driving force in the market, pushing interest rates sharply lower and enabling issuers to achieve a very low cost of funding.

Meanwhile, the appetite of investors for "equities with shock absorbers", as these types of bonds are known, remains strong, especially as nervousness persists about the dizzy heights to which stock markets have returned at a time when earnings growth forecasts are being revised downwards.

"This is a very good time to come to the market," said Susan Lewis, director of convertible and equity-linked capital markets at Salomon Smith Barney in London, noting that issuers can expect conversion premiums of about 25 per cent when setting the terms of issues.

Indeed, the trend in conversion premiums is an accurate barometer of the state of the new issues market. At its frothiest, in late summer, the market saw premiums above 30 per cent, touching 35 per cent for an E600m bond from Banco Santander of Spain in July, and even 38.2 per cent for an Italian issuer a month earlier.

When global equity markets went into reverse, however, so did conversion premiums, although the turnround has been as dramatic as that of stocks.

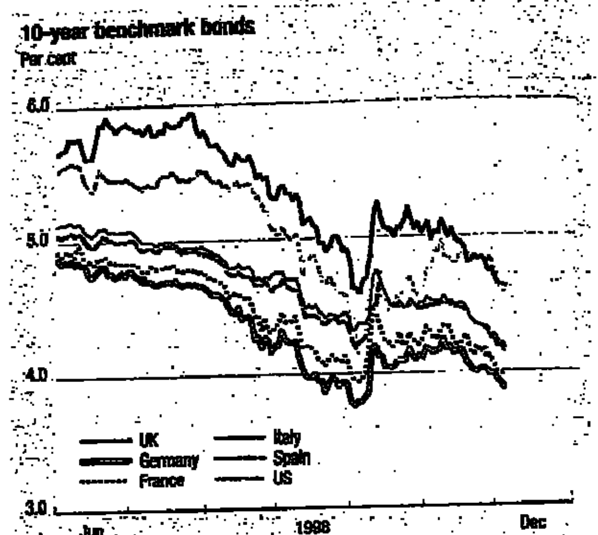
Ahold, the Dutch retailing group, issued a Fl 1.3bn convertible in September, in the midst of a severe market shake-down, with a conversion premium of 22 per cent. Fortis Amev, the financial group, issued a Fl 1.5bn bond in late October with a premium of 25 per cent, reflecting markedly improving sentiment in the market.

Also, France Telecom's jumbo FFr10bn convertible came with a conversion premium of 28 per cent.

The five-year issue, which coincided with the sale of another block of shares in the company by the French government, typified the trend among European issuers. The deal was big enough to be liquid and was attractively priced relative to the underlying equity, and the credit quality of the corporate is exceptionally high.

The French market, which had been very quiet in September and October, is currently one of the most active.

Usinor, the steel group, issued a FFr2.2bn bond in late November that can be converted into either new or existing shares, a first for a French company. It was made possible by recent changes to French law governing share repurchases by companies.



"This gives maximum flexibility to the issuer – it can now control the dilution resulting from conversion of the bond," said Antoine Schwartz, head of equity-linked capital markets at Goldman Sachs in London, which led the Usinor issue along with SG.

Last week's two-tranche exchangeable from Mediobanca of Italy also suggested the new issues market had passed another test. Mediobanca and Goldman Sachs, the underwriters, built the books on a price range basis rather than on the indicative coupon or premium range.

The three-year, L580bn tranche of the issue, which was priced over par, has a negative yield to maturity and no coupon. "This is almost all equity," said one banker of the issue.

Bankers say that the outlook for the convertible and exchangeable market in 1999 is bright, especially in the European market, as such issues become more tax-efficient and attractive in a low-interest-rate environment.

MAM to launch euro-focused funds

By Michael Morgan

Mercury Asset Management (MAM), the UK's largest pension fund manager, is to launch four euro-focused funds to benefit from European economic and monetary union.

The funds, to be launched on January 4, will complement 10 existing funds in the Mercury Selected Trust offshore umbrella, spread across the risk and asset class spectrum.

Mercury, bought by Merrill Lynch, the US investment bank, last year, has $40bn invested on a pan-European basis.

"Over the next three to five years, we are anticipating doubling assets under management at Merrill Lynch Mercury and a significant proportion of those assets is going to come from the European context," said Colin Clark, head of global sales and marketing.

The new funds will be denominated in euros and will target shares in larger companies, high-yield bonds and global bonds, predominantly with a maturity of up to three years.

Mercury believes the use of equities by the European savings industry will grow substantially as a result of factors that include pension reform and privatisations.

At the end of last year, equities represented 12 per cent of total savings in Germany and 20 per cent in Italy, compared with 57 per cent in the UK.

Elizabeth Corley, head of international investment funds, said Mercury expected significant demand for equity funds using sector-based research. There would also be a significant demand for fixed-income funds, looking for credit differentials. Substantial sums would flow into mutual fund structures accessible to private investors.

They were also very flexible, she said. "You can invest in them directly. You can use them as part of your pensions funding or you can even wrap them into an insurance structure."

Autogrill set to operate French rail restaurants

By Paul Betts in Milan

Autogrill, the acquisitive Italian motorway and fast-food restaurant company 57 per cent controlled by the Benetton clothing group, is set to take over for about FFr330m ($59m) the concession to operate restaurants in France's main railway stations.

Paolo Prota Giurleo, Autogrill chief executive, has just unveiled that French state railways had selected the Italian company from a group including rival French and British bidders.

The aim is to finalise a deal to acquire restaurant activities in 13 French stations, including the Gare Saint Lazard and the Gare du Nord in Paris.

Mr Giurleo said negotiations were now at a final stage and Autogrill hoped to complete the deal by Christmas.

Financial analysts in Milan suggested Autogrill would probably have to pay about FFr330m for the French railway restaurant business.

Autogrill, which is controlled by Edizioni Holding, the Benetton family holding company, has been expanding in continental Europe during the past few years.

A series of acquisitions has given it a 36 per cent share of the motorway restaurant market in France, 30 per cent in Austria and 44 per cent in Benelux countries.

It has a 78 per cent share of the motorway restaurant business in Italy.

Mr Giurleo said the company was now seeking to grow further in Germany, where it currently has only a 1 to 2 per cent share of the motorway food business, in spite of a recent acquisition.

Autogrill has also been eyeing the UK market, where it is so far absent, but Mr Giurleo said the opportunities and high entry costs made an imminent move difficult.

The company has opened a new L26bn ($15.7m) flagship restaurant in Milan's "Galleria", by the cathedral.

Apart from the formal restaurant, the new venture includes bars, a fish-and-chips shop, a bookstore and fashion stores.

Autogrill is also looking to expand in the Italian railway station and airport business alongside its controlling shareholder, Benetton.

Benetton has already announced plans to bid in the imminent privatisations of Aeroporti di Roma, the Rome airports operator, and of Autostrade, the Italian state-owned motorway group.

Benetton is also interested in bidding for the management of Italy's main railway stations, which the financially troubled Italian state railways are seeking to sell off to raise funds.

Autogrill expects to report a 28 per cent rise in revenues this year to about L2,300bn, with net profits growing by a similar percentage to about L65bn, from L49.9bn in 1997.

Selwyn Cushing in dual Brierley role

By Terry Hall in Wellington

Selwyn Cushing, who last month received unanimous support from the faction-ridden board of Brierley Investments to be appointed chairman at the annual meeting, is also to be chief executive.

The dual role is to oversee the "critical task of restoring stability and strength to the company". The statement came only days after the board rejected a bid from the Los Angeles investment group Shamrock for a fee-based contract to manage the company.

Shamrock had claimed the support of leading shareholders. Mr Cushing, a successful businessman who worked for Brierley Investments for many years, was asked to become chairman by Camerlin, the company's biggest shareholder, and has accepted both jobs.

Among a host of directorships, Mr Cushing is also overseeing the reconstruction of the state-owned Electricity Corporation of New Zealand, and will not be able to take up his management role at Brierley Investments till March, when his ECNZ appointment ends.

The company said Mr Cushing would resign as Brierley chief executive "once the reshaping phase has ended".

It also said it would make policy changes that seemed to fit with aims of Camerlin expressed by its chief executive, Tan Sri Quek Leng Chan, at the annual meeting, including resumption of dividend payments.

However, the statement said resumption this financial year would depend on a funding package being worked out with lenders, and on asset sales. Directors reportedly intend to step up the sale of non-core assets.

Some NZ$1.3bn (US$678m) was raised in asset sales over the past six months. The statement said that Brierley Investments would take a more active role in managing assets, which include a 42 per cent stake in Thistle Hotels of the UK.

Forecast looks bright for weather derivatives

By Edward Luce, Capital Markets Editor

Weather derivatives are coming to Europe. A wide range of European companies, from Scandinavian hydro-electric utilities to UK soft drinks manufacturers, have approached specialist brokers to inquire about hedging against future weather conditions.

The market, which was started in the US in September 1997, when an energy company drew up a derivative based on variations in winter temperatures, has taken off in the past year.

Stuart Mercer, a reinsurance broker at Willis Faber in the US, says at least 200 weather derivative contracts have been agreed in the past 12 months. Others say it is nearer 1,000. All agree it is one of the fastest growing over-the-counter derivatives markets in the US.

A typical weather derivative is based on one of a number of indices, such as those based on temperature, average snowfall, mean precipitation, or even reservoir levels.

Specialists say the market has only emerged recently because of deregulation of energy in the US. The same trend is apparent in Europe.

"In the past, if the winter was unusually mild or the summer was disappointing, electricity utilities or gas companies would simply pass the lost revenue on to the consumer in higher prices," said Mark Tawney at Aquila Energy in the US. "In a competitive market they have to manage their costs much more carefully."

In a typical contract, a gas company would hedge itself against an unusually warm winter by taking a put option on an index. If, for example, the temperature was milder than average for a certain number of days over the winter, the company would receive compensation from the other party to the contract, such as a residential property company. If the winter was colder than usual, the gas company would remunerate the property company.

Hydro-electric companies and even snow-clearing equipment manufacturers have taken out derivatives options on average snowfall, and US agricultural companies have agreed contracts on future rainfall levels.

One broker even suggested the England and Wales cricket board should take out an option on the average rainfall index. "I wouldn't want to be on the other side of the deal," he added.

However, the growth of the market in some European countries, notably the UK, is constrained by the high price of getting hold of meteorological data.

Unlike the National Weather Service in the US, which provides data free on the internet and elsewhere, the UK Met office charges high prices for information about the weather.

"The potential for growth in the UK is high," said Kendall Johnson, director of energy at TSA, a specialist brokerage. "But problems remain with the procurement of data."

European companies thought to be looking at the market include Gaz de France and Centrica, the UK gas company.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Hoechst (Germany)/ Rhone-Poulenc (France)	Aventis (France)	Pharmaceuticals	$22.5bn	Life science leader
Total (France)	PetroFina (Belgium)	Oil	$13bn	New Euro-major
Deutsche Bank (Germany)	Bankers Trust (US)	Banking	$10.1bn	Confirmed
EdF (France)	London Electricity (UK)	Power	$3.2bn	Terms accepted
News Corp (Australia)	EchoStar (US)	Broadcasting	$1.5bn	Asset swap
Rexam (UK)	PLM (Sweden)	Packaging	$631m	Balancing item
Etex (Belgium)	Marley (UK)	Building matris	$606m	Trumps Mansfield
Deutsche Bank (Germany)	Unit of Credit L (France)	Banking	$596m	Disposals continue
Vickers (UK)	Ulstein Holding (Norway)	Engineering	$571m	Propulsion move
GEC (UK)	Elscint (Israel)	Computer srvcs	$270m	Now in 3-D

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 4, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7907.80	4750.00	2834.97	4007.59
Albania	(Lek)	234.405	140.800	84.0348	118.794
Algeria	(Dinar)	99.1707	59.5685	35.5527	50.2582
Andorra	(French Fr)	9.3547	5.6191	3.3537	4.7409
	(Sp Peseta)	237.464	142.650	85.1388	120.354
Gibraltar	(Gib £)	1.	0.6067	0.3585	[illegible]
Greece	(Drachma)	469.124	281.790	168.183	237.747
Greenland	(Danish Krone)	10.6086	6.3712	3.8026	5.3754
Grenada	(E Carib $)	4.4950	2.7000	1.6115	2.2780
Guadeloupe	(French Fr)	9.3547	5.6191	3.3537	4.7409
Pakistan	(Pak. Rupee)	83.4190	50.1075	29.9060	42.2759
Panama	(Balboa)	1.6648	1	0.5968	0.8437
Papua New Guinea	(Kina)	3.5460	2.1300	1.2712	1.7970
Paraguay	(Guarani)	4723.87	2837.50	1693.52	2394.01
Peru	(New Sol)	5.2383	3.1465	1.8779	2.6547

MARKETS WEEK

December 7 - December 13

NEW YORK

By Tracy Corrigan

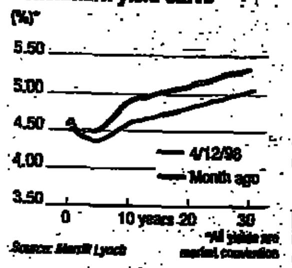
The jump in November employment numbers seems to have lessened the chances of a further US rate cut when the Federal Reserve committee meets on December 22, according to analysts. But the US Treasury market has been buoyed by news that Brazil had faltered in its attempt to implement its new fiscal plan. The market was also helped by co-ordinated rate cuts in Europe.

The Fed's Beige Book, due out on Wednesday, will be scoured for early signs of the conditions on which the Fed will base its decision. But analysts said that though employment numbers made a further rate cut unlikely this year, the US market looked well underpinned.

According to a report by Donaldson, Lufkin & Jenrette, "yields on 30-year bonds should hold at around 5 per cent in the near term. Longer term, between now and the end of next year, bond yields will fluctuate in a 4.75-5.75 per cent range." But the report said market worries about the Brazilian fiscal stabilisation process and soft petroleum prices had "rendered the US fixed income market attractive."

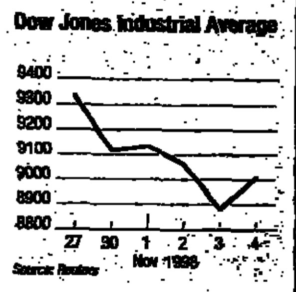
Also due this week are data on consumer credit and producer prices and retail sales.

Benchmark yield curve



Source: Merrill Lynch

Dow Jones Industrial Average



Source: Reuters

LONDON

By Philip Coggan

The main event of the week as far as the UK markets are concerned is the announcement of the Bank of England's decision on interest rates.

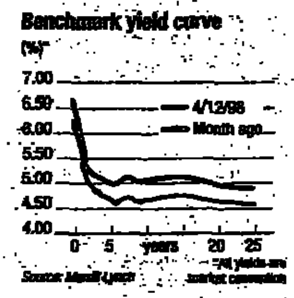
The last inflation report indicated that members of the monetary policy committee were paying more attention to survey data in judging the health of the economy; and recent surveys have been gloomy.

Last week's rash of cuts by European banks will have given a modest nudge downwards, since sterling, which yields almost 4 percentage points more than the rest of Europe, might start moving higher without a further rate reduction. Most analysts seem to plump for a quarter of a point cut.

If the Bank needed any further evidence of economic slowdown, it should be provided by figures for industrial production in October, expected to be 0.2 per cent down on the month and 0.1 per cent on the year.

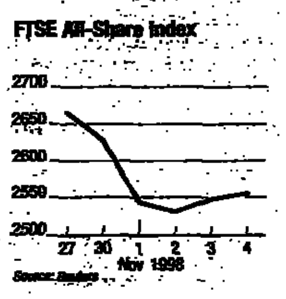
While the market has kept one eye on the economic statistics in recent weeks, it has trained the other one on the stream of profit warnings from the corporate sector. Companies to report this week include LucasVarity, Racal Electronics, Sage, Scottish & Newcastle and Stagecoach.

Benchmark yield curve



Source: Merrill Lynch

FTSE All-Share Index



Source: Reuters

FRANKFURT

By Graham Bowley

Germany's stock market soared on Thursday after the Bundesbank and other European central banks delivered a surprise cut in interest rates.

The move was seen as the final preparation for the European single currency, to be launched next month. It was also prompted by concerns among Europe's central bankers that economic growth could slacken next year against a background of high unemployment, especially in Germany.

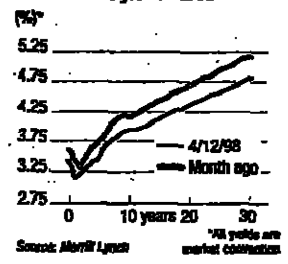
Some analysts said the pre-emptive cut would allow the European central bank room for manoeuvre when it takes control of monetary policy in January.

Germany cut its benchmark rate from 3.3 per cent to 3.0 per cent. The Xetra DAX index of German blue chip company shares rose 2 per cent, but fell Friday to close at 4,802.76.

The week also saw important corporate news, including the formal announcement of the deal between Hoechst of Germany and Rhône-Poulenc of France.

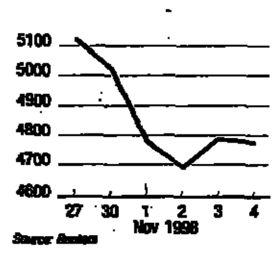
The new company will have its headquarters in Strasbourg. Hoechst's supervisory board meets tomorrow to discuss the merger.

Benchmark yield curve



Source: Merrill Lynch

Dax Index



Source: Reuters

TOKYO

By Paul Abrahams

After last week's gross domestic product data showing a fourth quarter of contraction, focus will be centred on the political response to the recession.

The ruling Liberal Democratic Party and Liberal Party, which have just formed an alliance, are still thrashing out policies.

The Nikkei 225 index has been trading in a narrow range in low volumes, but equities would jump on signs that the government was intending to cut corporate and income taxes.

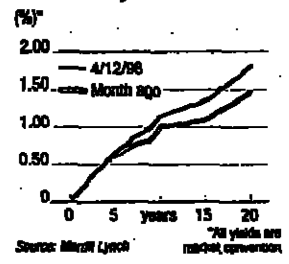
However, the Japanese government bond market, already showing signs of weakness, would be badly hit by fears of further issuance to fund such cuts. The only other response might be aggressive monetary reflation by the Bank of Japan.

Economic data due this week includes October's wholesale price index which is scheduled for today.

The index is expected to fall 3.4 per cent year-on-year, underlining the inflationary pressures in the economy.

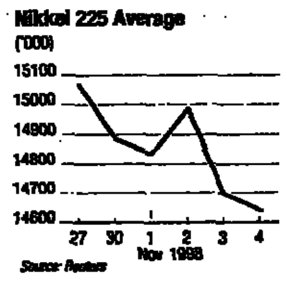
On Thursday, private machinery order data are expected to show a decline of more than 7 per cent. October's current account data are due on Friday and are expected to show another sharp increase.

Benchmark yield curve



Source: Merrill Lynch

Nikkei 225 Average



Source: Reuters

COMPANIES DIARY

EDITED BY MARTIN BRICE

Results likely to show tough time for UK retailers

Investors will have to look hard for Christmas cheer in results this week, when bad news might appear to outweigh the good. Although advances are expected from information technology company Sage and support services group Jarvis, there may be falls from Scottish & Newcastle, London Clubs International, Prism Rail, and Courts the retailer.

TODAY

● Interim figures from support services company Jarvis are again expected to reflect the strong growth it has enjoyed during the past two years. Analysts are forecasting a rise of some 68 per cent pre-tax, powered by the facilities side of the business where rail maintenance should have seen organic growth of about 20 per cent. The underlying pre-tax figure is expected to rise from £12.7m to £21.3m ($35m).

TUESDAY

● Berkeley Group is perceived as one of the best housebuilding stocks but its exposure to the central London property market has worried investors. That has led its shares to underperform the sector by about 20 per cent this year so a strong performance in these results may see the stock rise. Earlier this year it said the market was losing its shine so investors will be keen to hear any comments on outlook, particularly in London and the south-east. A 24 per cent interim advance to £54m is likely.

● Interim results from speciality chemicals company BTP are expected to be about 5 per cent lower at £24m pre-tax as the costs of integrating acquisitions and the dilutive effects of disposals take their toll. The slowdown in Asia will probably have affected the contribution from agrochemicals and animal healthcare products.

● Third-quarter figures from LucasVarity are expected to rise from £85m to £96m although much of this may be the result of earlier provisions. There are two shadows over the company: the global economic slowdown, of which the recent warning from Boeing is the most pertinent example, and recent shenanigans over the failure of the management attempt to move the listing from London to the US.

● Interim figures from Scottish & Newcastle may be overshadowed by any comments the company makes on the impact of poor weather during the summer and competition on beer pricing from supermarkets. A 3 per cent fall to £217m is expected by analysts at BT Alex Brown. The broker has also highlighted the growth available from the acquisition of 200 tenanted pubs from Nomura.

● Casino operator London Clubs International is expected to unveil an interim decline of about 32 per cent in pre-tax profits, to about £9.3m, as the impact of changes to UK gaming duty takes its toll. Any comments on the impact of the Asian crisis on high-spending London gamblers are likely to be keenly analysed.

● Prism Rail may fall from the £4.8m interim pre-tax profit into a loss as the £30m annual fall in the franchise subsidy takes effect. Williams de Broë expects the dividend to be held at 5p despite forecasting a loss. The results may prompt downgrades to full-year forecasts.

WEDNESDAY

● Retailing company Courts is unlikely to have escaped the tough times in furniture retailing and the difficulties of trading in Asia, and analysts at BT Alex Brown expect interim figures to show an 18 per cent fall to £8m. Although the company said at the AGM in September that deliveries were ahead of last year, this may have been achieved at the expense of margins which will feed through to a lower bottom line.

● The phenomenal rise in Sage Group's share price this year has seen it move from a multiple of 29 times prospective earnings to about 39 times, so it is hard to see how it can outperform. Strong growth in its UK operations is expected to have helped the underlying pre-tax line rise by about 22 per cent to £46m, according to a consensus of forecasts from First Call, the estimates service. There may be comments on how its US acquisition, State Of The Art, is doing.

● The exposure of Greenalls to the difficult economic environment in the north of England is set to act as a drag on the pre-tax line when the pubs and hotels group reports interim figures. However, a strong performance by the hotels business is expected to offset the fall in pubs. Underlying profits are likely to be slightly up, from £157m to £160m, according to Williams de Broë. Although the shares have underperformed by 22 per cent in the past 12 months, the recent bid by Wolverhampton & Dudley Breweries for Marston has shown that for some there is value in the sector.

THURSDAY

● Interim figures from Racal Electronics will show a decline, being the first since the disposal of the data products operation. While the defence and industrial sides may advance, margin pressure may offset growth in commercial telecommunications revenue. A 17 per cent decline to £36.5m is expected by BT Alex Brown.

● A strong performance from its South West Trains and Porterbrook subsidiaries are likely to power Stagecoach to an interim advance of 22-29 per cent. The bus and train group's recent acquisitions are not expected to make a large contribution but there may be comment on their prospects. A pre-tax advance from £71m to £86m-£94m is expected.

● Shares in contract catering and restaurant services group Compass are about 35 times expected earnings so any upset may see a correction. However, the final figures are expected to be up 18 per cent to £159m, according to First Call. The heady multiple at which the shares stand reflects market expectations of growth. Underlying growth at the interim stage was 14 per cent, slightly less than achieved in previous years.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Fannie Mae(c)★	2bn	Nov 2003	4.75#	99.503R	4.910	+50½(Nov03)	Goldman/JPM/MSDW
Westpac Banking Corp(d)‡	200	Jan 2008	(d1)	99.516	-	-	HSBC Markets
Deutsche Bank Finance	150	Dec 2002	4.50#	97.279R	5.272	+60(5⅝May01)	Deutsche Bank
BP America	300	Dec 2008	5.00	99.911R	5.021	+50(4¾Nov08)	JP Morgan Securities
GECC	250	Dec 2010	5.25	98.841R	5.384	+67(4¾Nov08)	Deutsche Bank
Holderbank Capital Corp	200	Dec 2003	5.50	99.765R	5.555	+100(Nov03)	CSFB
DaimlerChrysler (UK) Holding	200	Dec 2002	5.25	99.848R	5.293	+73(5⅝May01)	ABN Amro
DFCC Bank(h)‡	65	Dec 2008	(h1)	100.00	-	-	ABN Amro
Deutsche Bank Finance NV‡	500	Dec 2008	(u)	99.748R	-	-	Deutsche Bank
Vattenfall Treasury AB	250	Dec 2008	5.625	99.624R	5.675	+85(4¾Nov08)	Salomon Smith Barney
Banco Tornquist	70	Dec 2009	10.50#	100.00	-	-	Banco Central Hispano
Freddie Mac(c)★	3bn	Dec 2001	4.75#	99.84R	4.81	+45(4⅝Nov08)	[illegible]/Merrill/MSDW
Freddie Mac(f)	750	Dec 2008	5.50#	100.00R	5.500	+120½(Nov08)	CSFB/JP Morgan
TPSA	200	Dec 2003	7.125	99.752R	7.186	+285(4Nov03)	JP Morgan/Salomon SB
TPSA	800	Dec 2008	7.75	99.282R	7.858	+325(4¾Nov08)	JP Morgan/Salomon SB
Ericsson LM Telefon	300	Dec 2003	5.125	99.185R	5.315	+85(4¼Nov03)	Salomon Smith Barney
Gillette Company	300	Dec 2006	5.00	99.742R	5.040	+70(4¾Nov08)	Warburg Dillon Read
Bank of Montreal‡	300	Dec 2003	(w)	99.779R	-	-	Bank of Montreal
D-MARKS							
Philipp Holzmann(b)§	500	Dec 2003	3.25	100.00	-	-	Deutsche Bank
HypoVereinsbank Lux	412	Dec 2008	6.00	99.706	6.040	+204(Jul08)	HypoVB/JP Morgan
HypoVereinsbank Lux‡	588	Dec 2008	(j)	100.00	-	-	HypoVB/JP Morgan
Allied Domecq Fin Services	500	Dec 2005	4.75	99.52R	4.784	+90(i)	Warburg Dillon Read
Republic of Turkey(l)	200	Nov 2001	9.50	[illegible]	-	-	Commerz/Deutsche
STERLING							
KfW International Finance	250	Dec 2000	5.50#	99.546R	5.747	+38(6⅞Dec00)	[illegible]/Salomon
Safeway plc	200	Dec 2018	6.125	98.335	6.273	+155(8%-15)	CSFB
Railtrack plc(x)	250	Dec 2028	5.875	97.385R	6.065	+150(6%-28)	HSBC/Warburg DR
Hyder plc(y)	140	Apr 2020	7.0(s)	99.151R	7.083	+235(8%-21)	Dresdner KB/JP Morgan
FRENCH FRANCS							
France Telecom(a)§	12bn	Jan 2004	2.00	100.00	-	-	Paribas
YEN							
Mitsubishi Corp Finance	10bn	Dec 2000	0.71	100.20	-	-	Merrill Lynch Intl
SWISS FRANCS							
John Hancock Global Fdng(t)	250	Dec 2008	3.750	104.75	-	-	CSFB
ITALIAN LIRE							
Public Power Corp‡	340bn	Jan 2004	(k)	99.78R	-	-	CSFB
Mediobanca Intl(n1)§	605bn	Dec 2003	1.50	101.50	-	-	Goldman/Mediobanca
Mediobanca Intl(n2)§	580bn	Dec 2001	zero	101.50	-	-	Goldman/Mediobanca
GUILDERS							
Wolters Kluwer	400	Dec 2005	5.125	99.59R	5.196	+130(i)	Rabobank International
PESETAS							
Region of Baleares	12.575bn	Dec 2012	4.75(q)	100.30R	4.72	+12(Jun13)	BCH/Commerzbank
EUROS(e)							
Santander Finance(g)	500	undated	6.20(s)	100.00	6.346	-	B Santander/Goldman
European Investment Bank	1bn	Apr 2009	4.00(s)	99.905R	4.14	+8(4%Apr09)	Paribas
BNG	1bn	Jan 2009	4.25(s)	99.30R	4.34	+29(i)	ABN/Goldman/Warburg
DSL Bank(e)	1bn	Mar 2004	3.625	99.693R	3.69	+15(i)	ABN Amro
SPIE SA(l)	80	Jan 2004	(k)	100.00R	-	-	Credit Lyonnais/Merrill
Westfalische Hypo(p,z)	100	Jan 2014	(z1)	101.50	-	-	Morgan Stanley DW
NEW ZEALAND DOLLARS							
Deutsche Bank Australia	100	Jan 2003	[illegible]	99.24R	6.220	-	Deutsche Bank/RBC DS
World Bank(A)	100	Nov 2008	5.50#	95.855R	6.083	+76(i)	RBC DS Global Markets
GREEK DRACHMA							
Norddeutsche LB	15bn	Dec 2001	7.750	99.975R	7.760	-	Natl Bank of Greece
World Bank	20bn	Dec 2001	7.375	99.9125R	7.409	-	BG Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Conversion ratio: 10 shs/FFr524.8 bond. Callable from 1/1/02, subject to 115% hurdle, at par. 11% premium. b) Conversion price: DM208. Shareholder pre-emption rights. c) Fungible with $3bn. Plus 19 days accrued. Priced today. d) Fungible with $300m. Plus 62 days accrued. d1) 3-mth Libor flat. e) Payments in Ecu prior to Euro. Spread relates to French govt Ecu bonds. f) 12-mth Libor +160bp. g) Preference shares of Ecu25 each. Callable from 23/12/03. h) Principal guaranteed by Asian Dev Bank and interest by Sri Lanka. h1) 6-mth Libor -200bp. i) Over interpolated yield. j) Fungible with DM500m. Plus 5 days accrued. k) 6-mth Libor +65bp. l) Long 1st coupon. n) 2-mth libor +8.25bp. n1) Exchangeable into UniCredito Italiano shares at L10,513.20. Callable from 16/12/01 subject to 120% hurdle. n2) Exchangeable into UniCredito Italiano shares at L10,075.5. o) Long 1st & short last coupon. p) Oeffentliche Pfandbrief. q) Quarterly coupons. s) Short 1st coupon. t) Callable Dec 99 at par. u) 3-mth libor +200bp. v) Fungible with SFr500m. Plus 22 days accrued. w) 3-mth Libor +7bp. x) Puttable in event of restructuring resulting in negative certification or ratings downgrade below investment grade. y) Standard UK utility event risk language. z) Callable annually from 14/1/02 at par. z1) 4¾% in yrs 1-3, then rises ½pa to yr 13, then 5¾% in yr 14 and 6% in yr 15. A) Fungible with NZ$250m. Plus 41 days accrued. Note: Yields are calculated on ISMA basis.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	5.88	117½	85	†Chemtel	117½		–	–	–	–
§	F.P.	6.10	117	107	Collection Assets Tst	117		–	–	–	26.3
§125	F.P.	14.4	149½	127½	†Cornerstone	149½		15.19	1.9	4.8	11.9
-	F.P.	361.7	325½	229½	First Active	279½	−8	–	–	–	15.8
-	F.P.	-	119	105¼	Five Arrows Uts '49	118¼	+¼	–	–	–	–
-	F.P.	117.6	242	280	Sanlam	232		u≡20.54	2.2	9.3	6.2
-	F.P.	-	51¾	51¾	M&GT Zero Div Pf	51¾		–	–	–	–
-	F.P.	37.3	12½	10	Morley B	11		–	–	–	–
-	F.P.	251.2	50¼	50¼	Monthly High Inc	50¼		F5.0	–	12.4	–
§	F.P.	3.42	5½	4¾	†Natural Bldg Mtls	5½		–	–	–	–
§	F.P.	2.10	105	105	†On Cor Pf	105		–	–	–	–
-	F.P.	-	15½	15½	†Offshore Tool & Engy	15½		–	–	–	–
-	F.P.	7.64	93	90½	Piccadilly Growth	92½		1.6	0.8	2.2	72.5
-	F.P.	-	103	92	REXAM B	94		–	–	–	–
100	F.P.	-	178	167	2nd St Dvds Equity Units	176½	−1	–	–	–	–
-	F.P.	-	100	100	Singer&Frd AIM VCT	100		–	–	–	–
§	F.P.	15.6	100	100	Thistle Hotels Prf	15		–	–	–	–
-	F.P.	-	15½	13½	Xenova Warrants	13½		–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
145	Nil	7/12	13½pm	11½pm	Bloomsbury Publ	11½pm	+¼
7	Nil	18/12	2pm	1½pm	ILP	1½pm	
80	Nil	21/12	20pm	20pm	PPL Therapeutics	20pm	

pm premium.

FTSE GOLD MINES INDEX

	Dec 4	% chg since 31/12/97	Mkt Cap $bn	% of Gold Mines	Gross div yld %	Total return	52 week High	52 week Low
Gold Mines Index (29)	974.89	−7.8	31.78	100.00	1.86	977.85	1361.57	701.58
■ Regional Indices								
Africa (9)	1022.74	−7.4	8.35	26.28	3.37	1028.94	1486.04	765.63
Australasia (9)	1174.91	1.6	4.80	14.48	2.52	1180.84	1800.53	815.93
Americas (11)	932.97	−10.5	18.62	59.23	0.81	934.15	1317.41	547.69

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STOCK INDICES

	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30	1998 High	1998 Low	Since comp. High	Since comp. Low
FTSE 100	5581.9	5586.1	5507.2	5537.5	5743.9	6179.0	4648.7	6179.0	986.9
FTSE 250	4730.7	4758.6	4804.4	4821.4	4801.7	[illegible]	4251.2	[illegible]	1378.4
FTSE 250 ex IT	4708.9	4775.4	4828.8	4847.7	4823.4	[illegible]	4293.8	6038.8	1378.3
FTSE 350	2643.7	2638.0	2610.0	2632.6	2721.6	2987.8	2233.5	3540.4	[illegible]
FTSE SmallCap	2018.40	2021.44	2036.77	2036.45	2085.04	[illegible]	1834.49	[illegible]	1363.79
FTSE SmallCap ex IT	1978.88	1977.86	1992.54	1998.19	2017.00	[illegible]	1815.83	[illegible]	1363.79
FTSE All-Share	2552.43	2547.35	2530.80	2543.41	2626.86	2695.17	2156.07	2695.17	61.92
FTSE Fledgling	1122.08	1122.49	1129.71	1128.85	1140.12	1517.11	1046.17	1517.11	[illegible]
FTSE Eurotop 100	2030.02	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2044.47
FTSE Eurotop 300	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	974.08
FT 30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	49.4
FT Govt Secs	[illegible]	[illegible]	114.24	114.27	113.94	116.46	93.91	141.94	49.18
FT Fixed Interest	[illegible]	[illegible]	152.79	153.81	153.41	154.78	115.32	154.78	50.53
FTSE Gold Mines	974.89	977.30	1028.75	1037.19	1055.12	1361.57	701.58	2074.81	701.58

WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Aram Resources 1p
Baronsmead VCT 2 1.25p
Bowthorpe 3.7p
Elderstreet Downing VCT 1p
Gremlin 2.6p
Hammerson 10¾% Bds 2013 £1075
Knowles (JR) 5p
MEPC 8¾% Bds 2006 £87.50
Paterson Zochonis 12.65p
Do A 12.65p
Rockwell Intl $0.255
Treasury 8½% 2005 £4.25
Treasury 7¾% 2012 £3.875
Treasury 8% 2015 £4
Treasury 8% 2021 £4

■ TOMORROW

Abbey Natl Treasury FRN 1999 $13.98
Groupe Chez Gerard 2.55p
JJB Sports 2.8p
Kleinwort Devlpt Fund 20p
Murray VCT 2.5p
Penna 1.3p
PowerGen 10p
Reed Intl 1.75p
Do 7% Prf 2.45p
Roxspur 0.1p
Tenneco $0.30
Uppsala FRN 2002 $301.82

■ WEDNESDAY DECEMBER 9

Aberdeen Asian Smllr Cos 0.11p
Alliance & Leicester FRN 2003 £18.80
Anheuser-Busch Cos $0.28
European Inv Bank 9½% 2009 £237.50
Hitachi Credit (UK) 1.9p
Hydro-Quebec 6½% Series IK 1998 £65
Residential Mtg Sec 1 Class A FRN 2034 £104.89
Do Class M FRN 2034 £197.15
Do Class B FRN 2034 £261.98
Smith & Nephew 2.4p
Whitbread 8⅛% Deb 2021 £4.0625

■ THURSDAY DECEMBER 10

AlliedSignal $0.15
Bank of Ireland UVR Nts $1674.65
Bank of Tokyo-Mitsubishi Y4.25
Central Hispano Eurocapital N/V Pref $0.50
Chevron $0.61
Electronic Data Systems $0.15
Exxon $0.41
Forminster 1.26p
General Motors $0.50
Do BDR $0.025
Halifax 13⅝% Bds £3406.25
Headway 1.35p
Hepworth 3p
Hewden-Stuart 1.2p
Higher Education Sec Invs Series 1 Class A3 2028 £634.01
Do Class A4 FRN 2028 £693.18
Do Class B1 FRN 2028 £734.28
Do Class B2 FRN 2028 £734.28
Honda Motor Y12
Ideal Hardware 8p
Intl Business Machines $0.22
Johnston Grp 4.75p
Lilly (Eli) $0.20
NatWest Nts 2009 £201.01
Pfizer $0.19
Portman Bls Society FRN 1999 £189.08
RH Donnelley $0.175
Road Mngnt Consld 9.18% Bds 2000/01 £459
Sanwa Bank Y4.25
Standard Chrtd Undated FRN Series 3 $301.82
State Bank of New South Wales FRN 2004 $a64.39
Sumitomo Bank Y3
Sumitomo Bank Capital Mkts Nts 2003 $81000
Sumitomo Realty & Devlpt Nts 1999 Y355000
Taisei 7.1% Bds 1998 Y710000
Do 7.1% Bds 1999 Y710000
Texaco $0.45
Tokai Bank Y4.25
Toray Inds Y3.50
Do BDR Y3.50
Treasury 8% 2003 £4
United Techs $0.36
Wescol 1.1p
Young A 8.2p
Do N/V 8.2p

■ FRIDAY DECEMBER 11

CNC Props 1.5p
Cobham 4.65p
Denmark 3½% Internal DebtDkr3.50
DFS Furniture 10p
English China Clays 5.5p
Fidelity Special Value 1.8p
Fltg Rate Treasury 1999 £1.792
Mitsubishi Y4
Murray VCT 2 1.25p
Nippon Telegraph & Telephone Y2500
Perpetual Inc & Gwth Inv 1.53p
Provend 3.25p
Sakura Bank Y4.25

■ SATURDAY DECEMBER 12

Hammerson 6½% Cv Bds 2006 £162.50

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Kleinwort Devlpt Fund, 10, Fenchurch Street, EC3, 12.45
Paterson Zochonis, Holiday Inn Crowne Plaza Midland Hotel, Peter Street, Manchester, 12.00
BOARD MEETINGS:
Finals:
Phytopharm
Premier Asset Mngmt
Treatt
Interims:
Acal
Ashquay
British Land
Carclo Eng
Columbus Group
Jarvis
Norbain
Powderject Pharms
Spring Group
Tops Estates

■ TOMORROW

COMPANY MEETINGS:
Burnden Leisure, Reebok Stadium, Burnden Way, Lostock, Bolton, 10.00
GWR, Academic House, 24-28, Oval Road, NW1, 12.30
Scottish Metro Prop, Glenfiddich & Glengoyne Rooms, Glasgow Hilton, 1, William Street, Glasgow, 11.30
BOARD MEETINGS:
Finals:
Hozelock Group
Landround
Interims:
Berkeley Group
Boustead
BSS Group
BTP
Drew Scientific
Jasmin
Prism Rail
Scottish & Newcastle
VHE

■ WEDNESDAY DECEMBER 9

COMPANY MEETINGS:
BWI, 30, Furnival Street, EC4, 1.00
DFS Furniture, Moat House Hotel, Warmsworth, Doncaster, Sth Yorks, 10.00
BOARD MEETINGS:
Finals:
Apollo Metals
Daily Mail & General Tst
Firth Rixson
Greenalls
Heals
Sage Group
SHL Group
Interims:
Courts
Prelude Trust
Scottish Hydro
Smith (DS)

■ THURSDAY DECEMBER 10

COMPANY MEETINGS:
British Empire Secs, Saddlers' Hall, Gutter Lane, Cheapside, EC2, 12.00
Estates & Agency, 180a, Fleet Street (Bolt Court), EC4, 11.00
GR Hldgs, Beeson Gregory Ltd, The Registry, Royal Mint Court, EC3, 11.00
BOARD MEETINGS:
Finals:
Compass
Countryside Props
Howle
Interims:
Bulmer (HP)
Fine Art Devlpts
First Tech
Hadleigh
Heath (S)
Racal
Sibir Energy
Stagecoach

■ FRIDAY DECEMBER 11

COMPANY MEETINGS:
Wolseley, Redg Office, Vines Lane, Droitwich Spa, Worcestershire, 2.30
BOARD MEETINGS:
Finals:
Bradstock
Grainger Trust
Sperati (CA)
Warner Estate

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

FINANCIAL TIMES SURVEY http://www.FT.com

SPAIN'S EBRO VALLEY

MONDAY DECEMBER 7 1998

Corridor of power

The thriving economy that has sprung up on the banks of the River Ebro is to be strengthened by fresh infrastructure, says Tom Burns

Spain's Ebro river, which has its source near the northern Cantabrian coast, flows east, for nearly 1,000km, into the Mediterranean, where it forms a large delta below Barcelona. A corruption of Iber, which meant river in pre-Roman Spain, it lent its name to the Iberian peninsula. Today, the river's valley is home to some of the brightest business prospects south of the Pyrenees.

For more than a third of its course, as it flows through the wealthy regions of La Rioja, Navarre and Aragón, the Ebro forms a discernible "economic corridor" and a "development axis" stretching across the north of Spain.

It is an area of diversified growth and strong investment that connects, via a motorway that runs parallel to the river, the two long-standing industrial centres of the peninsula, the Basque Country and Catalonia. Zaragoza, the corridor's largest city, lies on the main road and rail routes from Lisbon and Madrid into the heart of Europe and it is rapidly becoming a communications hub.

A "development axis" is defined as an area that comprises several well connected neighbouring regions that have a common population density as well as a similar or complementary economic profile. Together they must constitute a magnet for investment.

The Ebro valley, whose inhabitants share a per capita income that is comfortably above the Spanish average and convergent with that of the European Union, meets just those criteria.

[illegible] high skills base. There are universities in Logroño and in Zaragoza, the capitals of La Rioja and Aragón, and two in Pamplona, the capital of Navarre.

The educational authorities of the regional governments co-ordinate the different faculty programmes on the state campuses, and the University of Navarre in Pamplona, a private institution created more than 40 years ago by the Opus Dei religious order, is regarded as one of Spain's best universities.

Two powerful economic engines, both of them built primarily for the export market, stand at the ends of the corridor and provide muscle to its industrial activity.

Volkswagen operates a big factory in Pamplona and Opel runs an even larger one 370km south-east near Zaragoza. Suppliers to both car centres occupy much of the space in the industrial parks that line the A-68 motorway along the Ebro valley.

Last month, Iberdrola, the large domestic power group, clinched a far-reaching agreement with the regional government of La Rioja to build a combined-cycle plant and develop a new industrial park midway along the corridor near the town of Castejón. There are already 10 large parks on the Rioja side of the Ebro and the local administration is anxious to move as much industry as possible on to these sites.

The automotive component plants make up the corridor's industrial backbone but manufacturing activity extends to several other areas such as the white goods sector – Sweden's Electrolux has concentrated its output of refrigerators [illegible] the European market at its Ebro Valley base – and agribusiness.

In all the sectors there is a mix of small and medium-sized enterprises and of large companies, scores of which are multinationals – there are more than 100 wholly or partly foreign-owned companies in Navarre alone.

The challenge that the Ebro valley faces lies in ensuring that its industrial base remains competitive in the new euro-zone environment. Much inward investment, here as elsewhere in Spain, has in the past been induced by favourable exchange rates, government incentives and cheap labour costs. With the onset of the single European currency, the area will have to rely far more on its ability to deliver productivity.

Much new investment has been in highly competitive sectors such as the automotive components business and is linked to two plants, Opel and Volkswagen, whose future industrial strategies will be shaped by decisions that are made a long way from the Ebro's banks. Both multinationals arrived at a time when competitive devaluation was the order of the day in Spain.

The Opel plant near Zaragoza is the Aragón region's manufacturing heavyweight. But it is also an example of a potentially dangerous concentration that highlights the region's industrial weakness. It is estimated that Opel España generates 20 per cent of Aragón's gross domestic product and that its suppliers account for at least a further 10 per cent.

Not before time, diversification is becoming a priority in the Ebro valley and agribusiness is gaining weight in [illegible]

Fed by fast flowing tributaries that descend from the Pyrenees and from a series of interlocking *sierras* that make up the *Sistema Ibérico* mountain range south of the valley, the Ebro irrigates a highly fertile area as it flows through La Rioja, Navarre and Aragón down to Zaragoza.

One of the tributaries, the Rio Oja, gives its name to the Rioja region and to Rioja wine. It joins the Ebro at the town of Haro, which lies at the northern end of the corridor, and is the headquarters for some of the best-known Rioja *bodegas*.

Wine-making – vintages as well as table wines – is also very strongly implanted in Navarre.

The wine industry has lately extended down the valley into Aragón where the profitable vineyards have come on stream using the latest *bodega* technology and the Somontano and Campo de Borja denominations. Throughout the area, the trend is to innovate and to blend fine wines for the upper segment of the market.

The fast development of quality horticultural produce and its conservation, particularly of mushrooms and asparagus by the Ebro valley towns of Calahorra and Tudela, rivals that of the wine sector.

One of the shared features of the three regions on the corridor is the even diversification of their economic base between industry and agriculture.

Good infrastructure is a key component of an economic corridor and the Ebro valley, thanks to the A-68 motorway which links Bilbao to the Mediterranean [illegible] well in this respect. Spain's Mediterranean seaboard, from the French frontier, through Barcelona and down to Valencia, forms the peninsula's other economic corridor.

The Ebro valley promises to get closer to achieving its full potential over the next five years under a clutch of large infrastructure projects. There will be a high-speed train link between Madrid, Barcelona and the French frontier passing through Zaragoza; a new motorway connecting Valencia with Zaragoza and entering France through a tunnel midway along the Pyrenees; and another new motorway connecting Pamplona with Madrid.

Political leadership is as important as infrastructure in the development of an economic corridor. One of the Ebro valley's best assets is the close co-operation between the local governments of La Rioja, Navarre and Aragón which bucks the more usual pattern of intense rivalry between neighbouring regions in Spain.

Shared thinking over the future of the Ebro valley owes much to good personal ties between the presidents of the three regional governments, two of whom are also local leaders of the centre-right Popular party, while the third, the president of Navarre, belongs to a sister party, the Union of the People of Navarre.

The thrust of the three governments is pro-business and several top officials, such as the head of Navarre's industry and trade department, who is a retired Volkswagen senior executive, have been recruited from industry into the local administration.

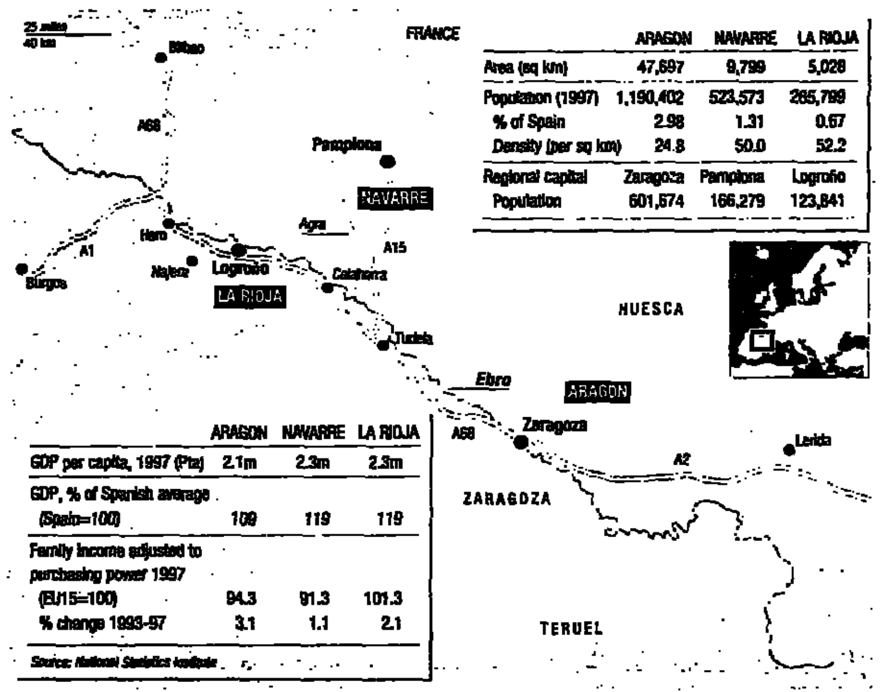
The common interest in developing the Ebro corridor for their mutual benefit has allowed the three governments to overcome possible conflicts arising from the special tax breaks that are available in Navarre due to the region's independent fiscal system – company tax in Navarre is levied at 30 per cent instead of at the Spanish norm of 35 per cent.

Fears that companies in Aragón and La Rioja would relocate to Navarre to take advantage of such incentives have not materialised to any significant degree.

The Rioja government is in fact far more wary of tax breaks offered by the Basque Country which also fixes and collects its own taxes, and it has lodged official complaints in Brussels alleging unfair competition. Navarre, which likewise borders the Basque Country, shares this apprehension.

Within the Ebro valley, all evidence points towards growing co-operation among the local governments and an increasing mix of commercial and industrial activity. Navarre wine companies are buying Rioja vineyards. Rioja component manufacturers supply Volkswagen's Pamplona plant, Aragón asparagus growers market their produce through Navarre brands, and Navarre shoppers travel down the A-68 for buying sprees at Zaragoza's hypermarkets.

Not just a pretty place: the valley is an investment magnet too



	ARAGON	NAVARRE	LA RIOJA
Area (sq km)	47,697	9,799	5,028
Population (1997)	1,190,402	523,573	265,799
% of Spain	2.98	1.31	0.67
Density (per sq km)	24.8	50.0	52.2
Regional capital	Zaragoza	Pamplona	Logroño
Population	601,674	166,279	123,841

	ARAGON	NAVARRE	LA RIOJA
GDP per capita, 1997 (Pta)	2.1m	2.3m	2.3m
GDP, % of Spanish average (Spain=100)	109	119	119
Family income adjusted to purchasing power 1997 (EU15=100)	94.3	91.3	101.3
% change 1993-97	3.1	1.1	2.1

Source: National Statistics Institute

PROFILE
PEDRO SANZ

The founder of a wholly practical trinity

A communion of thought has led to useful co-operation with other regional leaders

It is economists and planners of different hues who dream up concepts, draw a swathe across a map and call the geographical space they have created an axis.

It is politicians who give such laboratory brainstorms a political spin and make them achievable. Pedro Sanz, president of the regional government of La Rioja, is a politician.

In April 1995, Mr Sanz, who was campaigning for the job he now holds, held a meeting in Logroño, Rioja's capital, to which he invited Miguel Sanz (no relation), who was running for the presidency of Navarre, and Santiago Lanzuela, the candidate to head the regional government of Aragón.

The trio drew up a document that pledged mutual co-operation to develop the "Ebro corridor", and in the regional elections that were held a month later all three were elected to office.

Pedro Sanz looks back on what he calls the Logroño summit and says that it can already claim "very positive" results.

The three administrations have joined together to fund a research centre linked to the production of asparagus, which is grown in all three regions and marketed under the common Espárrago de Navarra label.

The health authorities of Navarre have also agreed to take patients from Rioja who live closer to Navarre hospitals than to those in Rioja that are administered by their own local health authorities.

These, and other similar initiatives, may seem small steps along the path of co-operation but by the standards of the turf wars that characterise relationships between neighbouring regions elsewhere in Spain they are milestones.

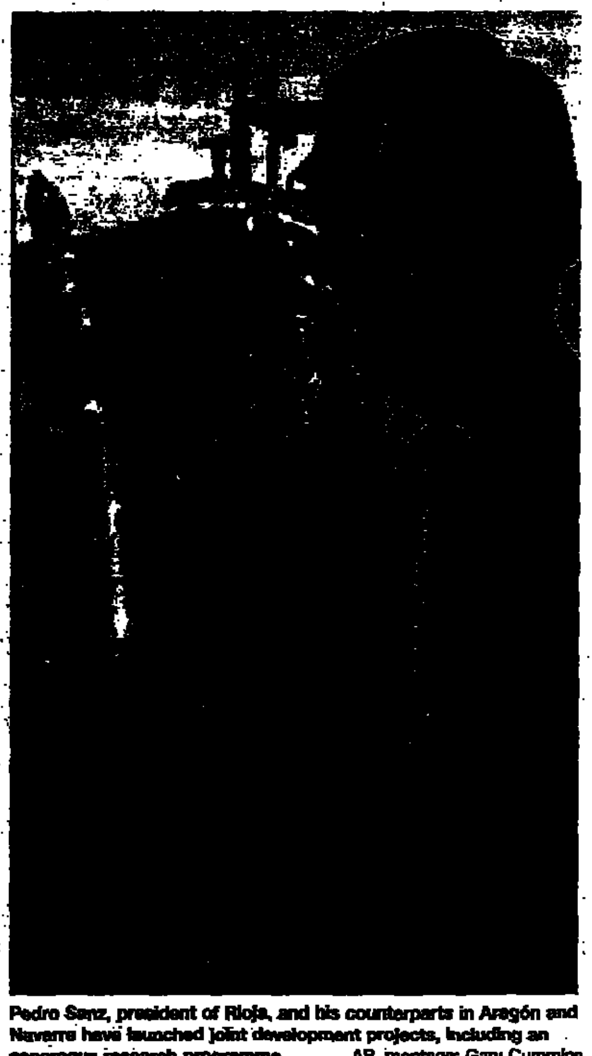
"None of us wants to lose our personality and identity," says Rioja's president. "But we are all open-minded and the three of us think along similar political lines."

Common thinking is not surprising since Pedro Sanz and Mr Lanzuela are both the heads in their respective regions of Spain's centre-right ruling Popular party and Miguel Sanz runs the Union of the People of Navarre, the Navarrese equivalent.

They all entered politics at a time in the late 1980s when José María Aznar, now the prime minister, became opposition leader at the head of the Popular party, and all three represent the renewal of the centre right under the aegis of Mr Aznar.

"We are all loyal to (Aznar's) political project," says Rioja's president, speaking for the three of them. "We see the Popular party as forward-looking and responsive."

'In Rioja we have a more than acceptable standard of living,' says Mr Sanz, and the same can be claimed for Aragón and Navarre



Pedro Sanz, president of Rioja, and his counterparts in Aragón and Navarre have launched joint development projects, including an asparagus research programme AP, montage: Gary Cummins

Such a communion with the politics that emanate from the central government in Madrid is hard to find among regional politicians in Spain.

Pedro Sanz takes a politically correct Popular party line when he argues that "society must fuel politics" and that "governments must be the image of society". The pared-down administrations and the market-driven policies that Mr Aznar preaches are clearly much easier to implement along the wealthy Ebro valley than elsewhere in Spain.

"In Rioja we have a more than acceptable standard of living," says Mr Sanz, and the same can be claimed for Aragón and Navarre.

Opinion polls suggest that Mr Sanz will be re-elected for a second term next year when regional elections are due, as will his namesake in Navarre and Mr Lanzuela in Aragón.

The three regions have low unemployment and high business confidence levels. And the feel-good factors of strong economic growth and low interest rates have fed through to the voters.

This suggests that shared thinking about Ebro valley co-operation will gain momentum. There is still much to be done to improve infrastructure, share resources and jointly develop industrial parks.

Tom Burns

INFRASTRUCTURE by Tom Burns

The best-laid plans are market-driven

Zaragoza could become a transport hub for links between France and the rest of Spain, if industrial investment in the region is taken as an impetus

Spain's transport infrastructure has been obsessively centred around Madrid ever since it became the country's national capital more than 400 years ago. If all goes according to plan, the Ebro valley and Zaragoza, at the eastern entrance of the "corridor", will change this.

Currently, the road, rail and air networks fan out of Madrid - which is slap in the middle of the country - like the spokes of a wheel, in what has historically been a political statement that asserts the power of the capital.

In a country that has undergone rapid administrative decentralisation, Zaragoza now stands to become a regional hub of considerable proportions, second only to Madrid itself, and this development lends a whole new profile to the Ebro valley.

New infrastructure investment, some of it virtually implemented, some of it in the making and some of it still on the drawing board, touches on road, rail and air transport. Even if the final results fall short of current expectations, the combined impact of these initiatives will be extremely beneficial for the Ebro valley and exceptionally positive for Zaragoza.

The guiding principle behind much of the infrastructure planning is that the two existing road and rail entry points from Spain to France – one at the western end of the Pyrenees by the Basque Country at Hendaye and the other where the Pyrenees meet the Mediterranean to the east in Catalonia by Perpignan – are both close to saturation. A third entry to the core of Europe therefore needs to opened up and this logically must lie half way along Pyrenees and thus to the north of Zaragoza.

The first tangible result of such strategic thinking is the near completion of a new dual-lane highway that runs from near Valencia, on the Mediterranean, through Zaragoza and on to the heart of the Pyrenees where it enters a tunnel at Somport to emerge in France, close to Pau.

The new highway creates enormous added value for the Ebro valley's A-68 motorway which runs through Zaragoza to reach the Mediterranean, south of Barcelona. It gives it a second point of access to the Mediterranean as well as a direct route to Valencia, and an alternative entry into France.

Still very much at the planning stage is a second tunnel through the Pyrenees, west of Somport, that should take rail freight into France by Vignemale and ease the pressure on the Hendaye and Perpignan border crossings.

The Vignemale project is vast in its conception – the projected tunnel will run for some 40km, putting it in the Channel Tunnel league – and claims nothing less in its purpose. It will be a grandiose link between the European rail network and that to the Iberian peninsula, shifting freight from Stockholm to Lisbon via Madrid and, of course, through Zaragoza.

Santiago Lanzuela, president of the regional government of Aragón, becomes visibly excited when he speaks about the Vignemale tunnel at his Zaragoza headquarters. He says that José Maria Aznar, the prime minister, and forward-looking officials in Brussels are enthusiastic about the project and that he himself has already held exploratory conversations with engineering consultants who were involved in the construction of the Channel Tunnel.

Far more immediate is the plannned high-speed train link between Madrid, Barcelona and the French border. It should be complete within the next three to four years and, again, Zaragoza, half way between Madrid and Barcelona, stands to gain substantially with rapid access to both cities. A key spin-off of this project is that it will put Zaragoza, via the high-speed train, at little more than 90 minutes' travel time from the international airports of Madrid and Barcelona.

Air transport is something of a vexed issue for those who predict such an exciting future for the Ebro valley because, bar a few local flights to Zaragoza, it is conspicuously absent from the region. Ironically, Zaragoza's airport is huge, or at least it has two very long runways, because until the late 1980s it was the site of a US airbase.

Mr Lanzuela believes that the former base is ideal for developing an important airfreight business to consolidate a role for Zaragoza as a logistics hub for perishable goods. The idea, which will involve building rail access to the airport and setting up refrigerated warehouses, has important supporters, not least Juan José Sanz, the chief executive of the Opel car plant outside Zaragoza.

As the plans develop, there is little doubt that Zaragoza, by far the biggest urban centre on the Ebro, will put on a lot of muscle. Mr Lanzuela is confident that the city will become the "new communications centre" for the most prosperous regions of Spain. Given that Zaragoza is at the centre of a triangle formed by Madrid, Bilbao and Barcelona, it is hard to fault him when he makes such claims.

The rest of the Ebro Valley, upriver from Zaragoza, is also putting down infrastructure markers and the petitions to central government in Madrid add up to quite a shopping list.

A key demand is to promote rail freight by upgrading the existing railway that runs along the river and the A-68 motorway. Such a scheme would link the valley to the main rail networks between Madrid and Bilbao and Madrid and Barcelona, both of which are being upgraded.

Other infrastructure bids include improved road links between Logroño and Pamplona, similar dual-lane access between Logroño and the town of Burgos, which lies on the main Madrid-Hendaye highway, and a new highway linking Pamplona directly to Madrid, which would remove bottlenecks at Burgos.

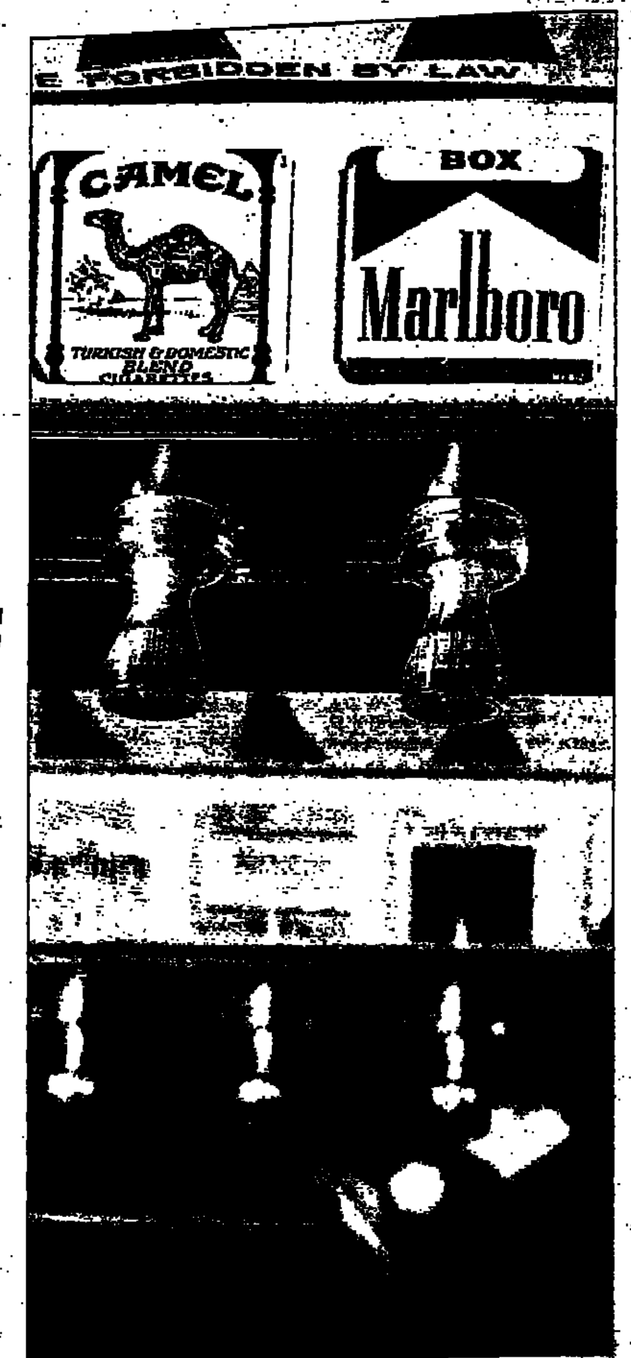
Of these three petitions, only the last has gained the required budgetary approval. Work has already commenced on what will become a key route from central Spain into the most industrious zone of the Ebro Valley.

The regional authorities of Navarre and Rioja expect that the sheer volume of traffic in the area will expedite the green light for the other projects. They are probably right. From Zaragoza, along the river, to Logroño, industrial investment grows significantly every year and the best infrastructure plans are invariably market-driven.

PROFILE
AZKOYEN

Cashing in on an expanding market

As a vending machine giant, Azkoyen is poised to profit substantially from the advent of the new European currency



Azkoyen claims to be the UK's top supplier of cigarette machines

The machines millions of Spanlards use every day when they buy cigarettes in a café or coffee in the office are more likely than not to come from Peralta, in the rural depths of the Navarre region.

Before the Azkoyen group started in a small way in the 1940s there was no manufacturing tradition in this area. But in the fields outside Peralta, just north of the River Ebro, a cluster of industries has since grown up, in many cases connected to the original venture.

Along with components suppliers, there is a direct rival in the same line of business, Jofemar, a specialist in tobacco and drinks machines set up by former Azkoyen employees and now its chief domestic competitor.

For three decades, Azkoyen was a small family-owned workshop. But it has since developed into a leading international manufacturer of vending machines and electronic change mechanisms, with a large portion of its shares now held by foreign institutions and a name that since the early 1990s has become increasingly familiar in other parts of Europe outside Spain.

The company, with 800 employees and sales last year of Pta16.4bn ($115m), recently made it into Forbes magazine's list of the 100 fastest growing small companies outside the US.

One of the three other Spanish companies on the list – Viscofan, a sausage-skin maker and food group – also hails from Navarre.

Maintaining a majority share of its core market in Spain, Azkoyen is also a dominant force in Portugal and now claims to be the top supplier of cigarette dispensers in the UK. With marketing offshoots also in France and Germany, the share of sales going abroad has doubled since 1992 to over 30 per cent. Ricardo Armendáriz, an Azkoyen director, says exports should make up between 40 and 50 per cent of the total within the next two or three years.

Few industrial sectors stand to be quite so directly affected by the introduction of the European single currency. Until now, different requirements for coin selection mechanisms have kept the European market fragmented along national lines, says Mr Armendáriz. The changeover to euro coins, due to take place in Spain and most of its European Union partners just over three years from now, promises to transform the industry.

Azkoyen is now poised to take a significant share of the business generated by the transition – substituting, adapting or reprogramming machines to take euros. Reckoning that there are between 9m and 10m automatic coin-operated machines in Europe, it has been building up capacity to meet the extra demand. From next year, it plans to be supplying equipment capable of operating and giving change in either existing currencies or euros, and of blocking the former when the old coins are phased out.

It was not always quite so hi-tech. Prior to starting the company, its founder, Luis Troyas, spent some time in Germany and came back to Peralta full of ideas about what could be done by machines. He called his venture Azkoyen after the name given to Peralta in the Basque language, also used by the local football team.

Early projects included potato and asparagus peelers, and an automatic cot for lulling babies to sleep. Vending machines only came later. The pace of change accelerated in the mid-1970s, when the company also began making coin selectors for games machines.

A 70 per cent stake was sold to a group of investors and the regional development agency. The company branched out into machines for hot drinks. The 1980s brought cold drinks, electronic technology, a deal to make mechanisms for pay-phones, a stock market listing, and diversification into catering equipment. Products ranging from ice-cube makers to coffee percolators are now made at a separate site outside Pamplona. By the same logic of market-driven expansion, Azkoyen now also does its own line in coffee beans.

Sales growth has been running at over 20 per cent so far this year and the total will have doubled over the last five years. Net profits have been rising recently at a more modest rate of about 9 per cent, reflecting the investment effort. The company has so far stuck to a policy of financing itself from its own resources rather than resorting to bank loans.

David White

PROFILE
OPEL ESPANA

Driving force behind a region

Last year Juan José Sanz, chairman and chief executive of Opel España, invited King Juan Carlos to high-profile celebrations to mark the fifteenth anniversary of the company's production start-up at Figeruelas, 30km east of Zaragoza along the Ebro valley.

A few weeks earlier the General Motors subsidiary had notched up production of five million Corsas, the small car that is the Figeruelas plant's main product.

The impact of the carmaker on the economy of Spain in general and of Aragón in particular is hard to exaggerate. The huge Figeruelas site, fed by a network of component factories, is the basin that draws the bulk of the region's industry.

"When I arrived here I looked round at a pretty bleak landscape and all I saw was goats and a couple of donkeys," says Madrid-born Sanz. That was in 1980 when Sanz, who had studied engineering with Opel in Germany and business administration with GM in the US, was sent to supervise the construction of the Figeruelas plant.

When he returned in 1990 to take charge of production at the site a 24-hour, three-shift working schedule had been negotiated with unions, more than two million Corsas had been produced and Figeruelas was a regular winner of the annual quality prize that GM awards among its overseas plants.

Production at the plant was approaching a cruising speed that now allows it to manufacture 91 vehicles an hour, around 445,000 a year, 90 per cent of which are exported.

The car producer was also in the process of attracting suppliers to its backyard. "This was all still pretty rural when we came," says Ventura Ramos, general manager of the Belgian exhaust systems manufacturer Bosal, which hired a plant in the Figeruelas area in 1992 and set up its own production centre there four years later.

Bosal is one of several companies that deliver components in sequence to the main plant's production line according to the motor industry's just-in-time precepts. Mr Sanz says that 25 per cent of Opel España's Pta225bn ($1.5bn) bill for purchases in Spain now comes from suppliers in the Figeruelas area.

It is estimated that Opel España accounts for 20 per cent of Aragón's gross domestic product and that its suppliers represent at least a further 10 per cent. Such statistics worry Mr Sanz, who became the company's chairman in 1994, and he urges the region's authorities to diversify.

"I don't want Aragón to suffer if one of our markets fails," he says.

Mr Sanz expects Opel España to benefit strongly from the arrival of the euro, and says: "It is going to help all the Spanish auto sector but it will be especially good for us because we are so export-focused."

But he also hopes the Ebro corridor, as it passes through Zaragoza, will attract new industries that will lessen the region's dependence on the car producer.

Skills merchant: J. J. Sanz

"There is a lot of space and a lot of water here, a superb strategic position and, in part thanks to us, an appreciation of quality and a high level of skills," he says.

As an important figure in the region, whose opinions are listened to, Mr Sanz wholeheartedly backs calls for investment to update the region's infrastructure and he is also increasingly interested in biomass initiatives that will give added value to the area's farming. "We still need to keep people on the land," he says.

Tom Burns

Opel's Figeruelas plant, which has output more than 5m Corsas, has been of immense importance to the Aragón economy

INDUSTRY by Tom Burns

From motor cars to mushrooms

The valley's industrial corridor is widening its range of strengths

If the Ebro were navigable it might be considered a cousin of the Rhine. It sweeps majestically through vineyards and intensive agriculture, bottling and canning plants, cathedral towns, industrial parks and castles perched on crags.

La Rioja and Navarre, two key regions that border its banks, compete with each other to claim they have the highest industrial added value per capita in Spain, comfortably ahead of the Basque Country, which lies close to the source of the Ebro, and of Catalonia, where the river flows into the Mediterranean.

Opel España, one of the brightest jewels in the General Motors crown, is located by the Ebro in Aragón, a sprawling region that meets the river as it leaves Rioja and Navarre. Down river from the car plant, Zaragoza, Aragón's capital and the fifth largest city in Spain, is a thriving urban centre where new consumer products are traditionally tested for the domestic market.

Suppliers have clustered round Opel España in Aragón but an important one, Delphi automotive systems, which is part of the GM group, lies upriver and close to Logroño, the highly prosperous capital of Rioja, that, like Zaragoza, has handsome bridges that span the Ebro.

Opel is by no means the only draw. Plants linked to the automotive sector are located along the river because they are within just-in-time striking distance of important manufacturing centres operated by Volkswagen and Nissan in Pamplona and by Mercedes-Benz in Vitoria.

Old towns along the Ebro provide industrial surprises and illustrate the degree of local enterprise. Arnedo, a short way back from the river in Rioja, is the centre of fast growing export-oriented leisure and youth shoe industries that are backed up by impressive computer aided design and manufacturing systems and a Rioja government-funded research and development centre.

Mushroom farmers on the banks of the Ebro in nearby Calahorra, which boasts a gothic cathedral, formed a co-operative, Champiunión, to can their crops in 1992. The company was producing 14,000 tonnes of canned mushrooms four years later, 11,000 of which were exported, and is currently investing close to US$2bn in new machinery.

Tudela, down river and in Navarre, is the centre of the asparagus agribusiness and its premier company, Ian, the world's biggest canned asparagus producer and part of the listed Viscofán group, has a large subsidiary business in Peru. In 1992 Sodena, Navarre's development agency, assisted Guardian of the UK to set up its fifth European float glass complex on an industrial site outside historic Tudela.

'The Ebro corridor is the reference point for all locations in the area. All the industrial plants are within 20km of the river'

"The Ebro corridor is the reference point for all locations in the area," says Juan José Muñoz, the economy and development minister in Rioja's regional government. "All the industrial plants are within 20km of the river."

"The corridor has its own personality," says Ramón Bultó, minister for trade and industry in the Navarre government. "It leaves its mark on the people, on the way they think and on how they focus on problems."

"The Ebro joins three distinct communities, it doesn't separate them," says Santiago Lanzuela, president of Aragón's regional government. "The valley is vital to whatever strategic thinking one wants to apply to Spain."

In the middle ages, the wood industry in the thick forests of Navarre's section of the Pyrenees used the Ebro river to float down logs to the Mediterranean. Today the conduit is the A-68 motorway that runs alongside the Ebro from the Rioja wine town of Haro, up river from Logroño, to below Zaragoza, where the motorway parts company with the Ebro and reaches the Mediterranean.

North of Haro, the A-68 veers away from the river to reach the Basque Country's Cantabrian coast and the Atlantic at Bilbao. The motorway, slicing through northern Spain and joining its two seaboards, provides a compelling logic for those seeking industrial locations. The stretch of the A-68 as it runs along the river valley – the Ebro corridor as planning promoters call it – offers more than just a fast commercial route across the wealthiest part of the country.

Space is one incentive. The regional governments of Aragón, Navarre and Rioja have all put a high priority on industrial parks. Navarre and Rioja, in particular, share an enormous network of small and medium-sized enterprises and the authorities in both areas are keen to consolidate the industrial fabric by moving the better placed companies on to industrial parks.

Lining the river, Rioja's parks start at the industrial estate of Fuenteciega, by Haro, and continue down to the Tejerías park by Calahorra. Between them stands the biggest, El Sequero, just south of Logroño, where Tabacalera, the big domestic tobacco group, has located its largest and most advanced manufacturing centre.

Navarre's regional government has set up a public company, Nasuinsa, to develop industrial estates and has over 3m sq metres available for companies seeking to locate in the region, more than double the space in Rioja. Pamplona, Navarre's capital, is not on the Ebro, unlike Logroño and Zaragoza, but it is well linked by motorway to the A-68 and the river's industrial corridor.

Aragón has plenty of land to spare along the Ebro, even in the immediate vicinity of Opel's site in Figeruelas which dominates the region's industrial heartland. The potential of this area is considerable because Zaragoza stands at the crossroads of Madrid, Barcelona and Bilbao and is equidistant from all three.

The second clear incentive for industrial locations along the Ebro corridor is the high levels of individual wealth and skills in Aragón, Navarre and Rioja. All three regions are above the national average in income and in productivity and industrial output indices. In all three, wealth and skills are concentrated along the river valley.

"There is not very much more that still has to be done for the Ebro to consolidate itself as an economic axis in the European Union sense of the word," says Francisco Bono, chief economist of the savings bank Ibercaja, the main financial institution serving the Ebro valley area. "It is already a seriously important corridor."

PROFILE
THE CHIVITE WINE FAMILY

Bottling success

Rafael Moneo, the Navarre-born and formerly Harvard-based architect, won an international competition last month to direct the first enlargement of Madrid's Prado museum since the collection of royal pictures opened its doors to the public 180 years ago.

Closer to his Ebro valley roots, Moneo is currently completing a new *bodega* for the Chivite family, which has been making wines in Navarre since the mid-17th century.

Sixty computer-controlled, 20,000 litre capacity stainless steel vats are already in place at Monneo's low-slung winery in the Señorio de Arínzano estate that the Chivites acquired in 1988, and the vaults beneath them are filling up with new French oak barrels.

The sober wood, cement and green-painted steel *bodega* will eventually stretch around a cluster of buildings that include a small medieval fort and an elegant 18th century church.

The family's decision to commission a *bodega* from a celebrity architect gives some idea of its self-confidence and ambitions. The bid to develop fine, estate-bottled wines, is a leap forward for the three Chivite brothers and their sister, Mercedes, who took over the family firm when their father, Julián Chivite, died two years ago.

The Chivite venture is arguably the most innovative development in Spain's increasingly assertive and high-tech wine-making industry. It also represents many of the themes that have fuelled the growth in the Ebro valley area: there is a boldness and openness to new ideas but also a belief in quality and a painstaking attention to detail born of a grounding in basic values.

On the 370 hectare Arínzano estate, in a spectacular valley close to the town of Estella, the Chivites have 170 hectares of vines, approximately 60 per cent growing the local Tempranillo grape, more than 30 per cent divided between Merlot and Cabernet Sauvignon and the remainder growing a small quantity of Chardonnay. The Arínzano wines are branded as Colección 125 and the 1994 vintage was released last year to critical acclaim.

The closely knit siblings have a considerable cash cow for their Colección 125 venture in Bodegas Julín Chivite which produces a line of food-friendly and reasonably priced reds and rosés, as well as established Navarre vintages, at the family headquarters in Cintruénigo by the Ebro. Their father built the firm up into one of Navarre's biggest wine concerns with 30 per cent of the area's production and some 50 per cent of its export volume.

For good measure, last year they acquired a profitable middle-range Rioja wine maker, Viña Salceda, which has a loyal domestic following. These sturdy props allow the family to meet the growing global demand for quality wines.

"We've always believed in the local Tempranillo, because it gives you a distinctive identity. It delivers a complex and fine wine, a bit like Pinot Noir, but it needs the accompaniment of Merlot and Cabernet to gain more structure," says Fernando Chivite, the third brother and a Bordeaux-trained enologist.

At Arínzano, where the estate is sectioned by the Ega river that flows down from the Pyrenees to the Ebro, Fernando believes he can extract the best from each variety. Fernando has analysed 200 samples of the estate's differing soils and researched the valley's microclimate over the past 120 years. The vineyards are set against the limestone slopes of the Montejurra peak on the west bank of the Ega, and on rising clay ground to the east amid a heady confusion of lavender and rosemary.

Tom Burns

Siblings lively: only two years after inheriting the family business, the Chivites have expanded operations aggressively

WINE INDUSTRY by David White

A measure of quantity with quality

Heritage wine production is flourishing, but demand threatens to outstrip supply and bureaucracy is restricting innovation

At the main cellars of Compañía Vinícola del Norte de España, otherwise known as Cune, one of the venerable names of Rioja wine, they have been rationing the number of bottles they sell to visitors.

Here they make a restricted range of wines, none less than two years old. The 1994 and 1995 vintages are considered among the best ever, and there has been a run on them. The winery says its stocks of wine in bottles, normally some 4m, are seriously depleted.

These are prosperous times for Rioja, the oldest of Spain's properly regulated wine regions, still by far the country's biggest producer of quality wines and its most widely known name among international consumers.

In a nation with the biggest surface area of vineyards in Europe, Rioja occupies a relatively compact territory straddling the Ebro river, stretching about 100km from Haro at the western end, where the biggest concentration of wineries is located, to Alfaro at the eastern extreme, and no more than 40km in breadth. The zone, which takes its name from a tributary of the Ebro, the Rio Oja, lies mostly in the modern administrative region of La Rioja, with part in the Basque province of Alava and a small portion in Navarre.

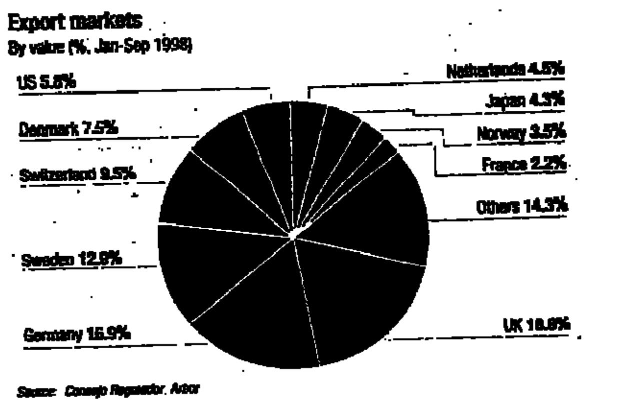
Its clay soil and benign climate produces 40 per cent of all the Spanish wines with *denominación de origen* labels, the Spanish equivalent of *appellation contrôlée*. Its products include whites and rosés but more than 80 per cent are reds. Quality is comparatively consistent, and since 1994 the region has enjoyed record production every year, up to an estimated 275m litres from the recent harvest.

But there are worries. "Things are going so well, they're creating problems," says Rafael del Rey Salgado, director of the Association of Artisans and Winemakers of Rioja (Arbor), a grouping of 13 companies.

He complains about "antiquated" administrative structures, is concerned about reinforcing the fine-wine reputation and argues that leeway should be given for new plantations in the region. The association takes issue with the Consejo Regulador, the controlling body and official guardian of the Rioja name, over the emphasis given to maintaining the "typical" characteristics of Rioja wines.

Expansion of the growing area has been tightly restricted, although it would be possible within the framework of European Union constraints on the sector to establish new vineyards in Rioja in exchange for abandoning others elsewhere in Spain.

Since 1986, when Spain joined the EU, the area growing Rioja wines has increased 20 per cent while production has doubled, Mr del Rey says. He argues that there is not infinite scope for continuing to increase productivity without affecting standards.



Source: Consejo Regulador, Arbor

Restrictive policies, when combined with strong demand, have two consequences, he says. One is pressure to produce yet more wine from the same vines, and the other is a sharp increase in growers' prices. Grapes that cost around Pta60 a kilo five or six years ago have this year touched Pta200, he warns.

Antonio Palacios, winemaker at the family-run Bodegas Palacios Remondo, is worried about the contradiction between bumper harvests and high grape prices. His explanation is that Rioja *bodegas* invested heavily with the profits they made on wine from earlier years, and now have to fill their new installations.

Rioja producers have been developing new wines, but scope is restricted

The problem is that young wine – which represents about 59 per cent of all Rioja sold – needs to fetch close to Pta500 a bottle to be profitable under these circumstances. Given the strong competition from other regions, says Mr Palacios, it is difficult to sell at that that price.

Rioja faces challenges both in the top market segments – mainly from Ribera del Duero, to the south, which has emerged as a serious rival in the last 20 years, although its output is much smaller – and in the cheaper ranges, where competitors include some well-made new table wines.

Some Rioja producers have also been developing new wines, but their scope is restricted. Stringent control is exercised over the grapes used, with seven authorised varieties (for reds mainly Tempranillo, the most characteristic Rioja grape, and Garnacha, well known in southern France as Grenache). The Consejo Regulador does allow other grapes such as Cabernet Sauvignon to be grown on an experimental basis, and some promising wines have been made by mixing these with the traditional varieties. On the other hand, the producers are not allowed to say so, and labels omit any mention of the intruder.

The rules also prohibit wineries from making, bottling or storing wine from other regions in their Rioja facilities. Mr del Rey at Arbor regards this exclusion as "a bit absurd". The Rioja region probably has the biggest wine storage capacity in the world, around 1bn litres, he says, arguing that as Rioja costs rise producers could sensibly use part of their facilities for wine from alternative regions.

A number of the companies active in Rioja already have interests spread over several regions – part of a growing concentration in the sector which has brought big sherry groups into Rioja and seen the growth of two leading wine empires, Bodegas y Bebidas and Arco. The former, controlled by the BBV bank, was the only listed Rioja producer until last year, but has since been joined by four others – Barón de Ley, Cune, Bodegas Riojanas and most recently Federico Paternina.

Some producers – including the members of Arbor – want to concentrate more on promoting brand names as a means of projecting a quality image.

Although wine growing in Rioja goes back much further, the sector only really developed in the late 19th century, under strong French influence. It took from Bordeaux the practice of ageing wine in oak casks, but not the hierarchy of different *crus* to categorise vineyards. Instead, the official classification goes according to the length of the ageing process. A *crianza* wine is at least two years old with one year in oak, a reserva is at least three years old, and a *gran reserva*, from an outstanding year, has at least two years in oak and three in the bottle. Wines normally come from more than one vineyard, often from different zones. Some château-style wines are now being made, however.

Mr del Rey warns that Rioja will get more expensive. In the international marketplace – and these days one bottle in three is exported – it has tended to be considered in the "good, low-priced" category. That image, he says, has to change.

TOURISM by Tom Burns

Pilgrimage on many grounds

Bilbao's visitor attractions cannot compare with the draw of the Ebro Valley's rural areas

"If the Guggenheim is in Bilbao, why aren't you?" runs a campaign launched by the Basque government to lure investment and tourism to the Basque Country. In terms of attendance, at least, the stunningly futuristic subsidiary of the New York museum has been a hit, having drawn 1.3m visitors, triple the expected number, and nearly 30 per cent of them non-Spaniards, since it opened a year ago.

This commercial success story should provide the Ebro valley with an unexpected bonus. The Rioja wineries and vineyards lie within a leisurely two-hour trip of Bilbao and a morning sampling contemporary art can be rounded off with an afternoon sampling the valley's vintages on their home turf.

But there is another compelling reason for driving the 152km from Bilbao down the A-68 to Logroño. The capital of La Rioja is more than an affluent centre for what the local tourist board terms *la ruta del vino*. On the banks of the Ebro, it is on the medieval pilgrim route to Santiago de Compostela.

This is the road that has been trudged by thousands since the 11th century, right across northern Spain, from the towering Pyrenees to the mighty cliffs of Finisterre, to pray at the tomb of St James the Apostle, Christianity's most hallowed spot after Jerusalem and Rome.

Pilgrims arriving at Logroño 900 years ago would have made straight for the fountain and the church of Santiago el Real in what is now the town's old quarter or *casco viejo*. The church's southern facade sports a memorable stone statue of the apostle not in his pilgrim garb of cockle-shell, staff and gourd but as the warrior Santiago Matamoros (St James the Moorslayer), his alternative iconographic rendering, astride a white charger, a plumed hat on his head, a sabre in his right hand, a streaming banner in his left and corpses beneath the thundering hooves of his steed.

Santiago reputedly appeared in 844, 12km south of Logroño, to lead a Christian army to victory over the Moors at the battle of Clavijo. Legend has it that St James slew 70,000 invaders from Africa that day. A ruined castle stands on a crag above the plain of Clavijo and the statue on the wall of the Logroño church exhibits what one writer called "the most heroic genitalia in Christendom, a sight to make any surviving Moor feel inadequate and run for cover".

One pilgrim route entered Spain over the Roncesvalles mountain pass north of Pamplona that is redolent with the *chanson de Roland* epic; another crossed the Pyrenees at Somport which lies in Aragón. Both routes converged to form a single pilgrim road at Puente la Reina, half-an-hour's drive north-east of Logroño on the road to Pamplona. At this visitor-friendly town, the pilgrims crossed the river Agra, one of the Ebro's main tributaries, over a six-arched, 12th century *puente* that must be one of the loveliest Romanesque bridges in the world.

The shrine of Eunate, another jewel from the same period, lies just outside Puente la Reina. It is a small, exquisitely simple octagonal church, clearly modelled on Jerusalem's Holy Sepulchre, and unusually ringed by a cloister.

Travelling west out of Logroño, towards Compostela along the pilgrim route (non-motorists trek along footpaths well off the main road), Najera stands 26km from the Ebro. This was the 10th century capital of what was then the flourishing kingdom of Navarre. Its main attraction is the monastery of Santa María la Real, near the town centre, which contains the lavish tombs of Navarrese monarchs and their feudal barons. The filigree-like tracery filling the arches of the monastery's early 15th century Gothic cloister is as fine as any to be found in Spain.

Having reached Najera, the cultural enthusiast touring the Ebro Valley region should push on to the monasteries called San Millán de Suso and San Millán de Yuso that lie by the village of San Millán de La Cogolla, 20 minutes' drive south-west of the old town, in a lusciously verdant valley among thick woods of oak and beech that climb up to the Sierra de la Demanda, which is invariably snow-capped in winter.

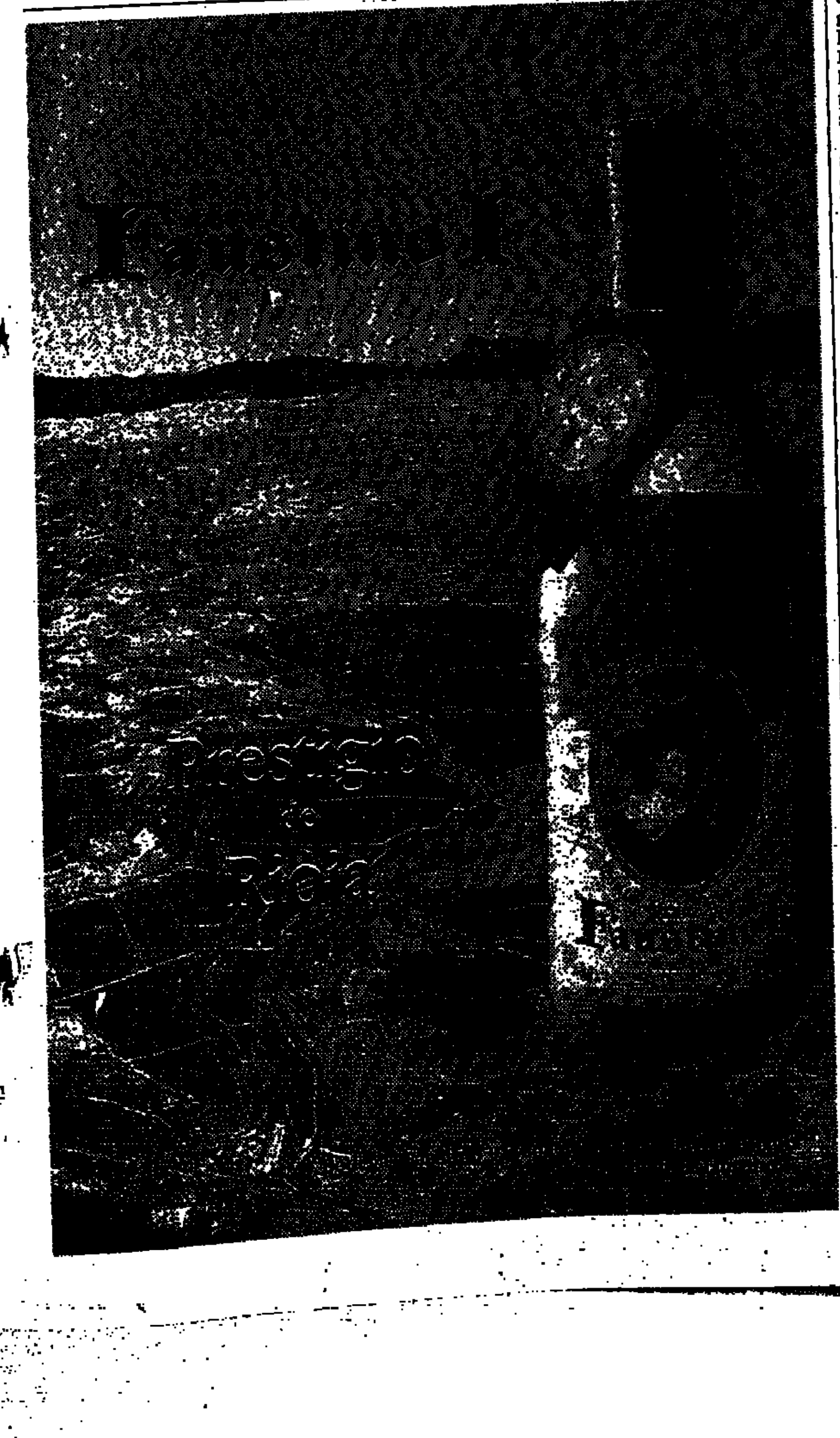
San Millán was a sixth century hermit who lived to be 101 and attracted a community of fellow holy men to the caves he inhabited among these woods. His followers fashioned a church out of the caves which forms the inner-core of the 10th century monastery of Suso, above the valley. They adopted the rule of Saint Benedict – the monastic order that built its abbeys all along the pilgrim route – and were renowned for the illuminated manuscripts they produced.

The two monasteries of San Millán (Yuso, which is in the valley, dates from the 14th century) are special as well as beautiful because it was here that Castilian Spanish, and also Basque, was first written more than 1,000 years ago by monks who scribbled vernacular notes in the margins of their Latin manuscripts.

In the early 13th century, Yuso Benedictine, called Gonzalo de Berceo, wrote a long poem in recognisable Spanish about the Virgin Mary. He explained to his readers that his Latin was faulty, that he was glad to write in the language "in which neighbours speak to each other" and that he hoped that they would enjoy his poem as much as "a glass of good wine".

This noble sentiment will strike a chord among those who have veered off the *ruta del vino* on to the pilgrim route as it straddles the Ebro valley and enters the deepest recess of Spanish culture.

The Guggenheim belongs to another planet.



Sterling on stage

By Richard Adams

With analysts agreeing that the Bank of England is more likely than not to cut interest rates later this week, the outlook for sterling once again takes centre stage on the currency markets.

Despite reductions in the repo rate at the last meetings and the strong chance of another cut on Thursday when the monetary policy committee announces its decision, the pound has stayed surprisingly buoyant against the D-Mark.

Sterling continues to hover around DM2.80 with the market discounting a 25 basis point cut. After Germany and France's decision to trim their rates by 30 basis points last week, the Bank would have to cut by more than expected just to maintain the previous differential.

And the flow of weaker economic data from the previously burgeoning service sector – which was overshadowed by the combined euro-rate cut on Thursday – may push the committee to slice off another 50 basis points.

Analysts said that could rapidly push the pound down toward DM2.75.

On the other side of the world, the New Zealand government announces its budget policy statement on Wednesday. But the continuing political instability in the country means the market is likely to ignore the statement.

The statement is usually published in February or March, but the government has rushed it out ahead of time in a panicked bid to hold a full budget early next year.

The statement will further reduce the government's forecasts for growth over the next two years, which is likely to drag down the New Zealand dollar. With the economy heavily dependent on export commodities, which show no signs of recovering, the currency has been one of the worst hit among the developed economies.

POUND SPOT FORWARD AGAINST THE POUND

Dec 4		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.6245	+0.0383	147 - 343	19.6563	19.5170	19.5889	3.4	19.4771	3.0	19.1377	2.5	103.6
Belgium	(BFr)	57.5414	+0.0921	884 - 943	57.6750	57.2480	57.3754	3.5	57.0077	3.1	56.1011	2.5	103.6
Denmark	(DKr)	10.6068	+0.0177	021 - 115	10.6295	10.5491	10.5845	2.5	10.5413	2.5	10.405	1.9	107.5
Finland	(FM)	8.4812	+0.0127	765 - 858	8.4980	8.4360	8.458	3.3	8.4156	3.1	8.2702	2.5	83.0
France	(FFr)	9.3547	+0.0145	516 - 578	9.3744	9.3027	9.3275	3.5	9.2819	3.1	9.1178	2.5	107.1
Germany	(DM)	2.7894	+0.0041	880 - 907	2.7968	2.7733	2.7817	3.3	2.7678	3.1	2.7191	2.5	105.2
Greece	(Dr)	469.124	+0.703	845 - 403	470.425	466.740	470.971	-4.7	474.179	-4.3	487.448	-3.9	62.0
Ireland	(I£)	1.1230	+0.0039	208 - 251	1.1251	1.1172	1.12	3.3	1.1145	3.0	1.0948	2.5	95.8
Italy	(L)	2761.98	+3.98	057 - 323	2768.40	2748.51	2754.38	3.3	2741.12	3.0	2692.98	2.5	76.4
Luxembourg	(LFr)	57.5414	+0.0921	884 - 943	57.6750	57.2490	57.3754	3.5	57.0077	3.1	56.1011	2.5	103.6
Netherlands	(Fl)	3.1441	+0.0053	426 - 456	3.1510	3.1265	3.1349	3.5	3.1193	3.1	3.0642	2.5	103.1
Norway	(NKr)	12.3795	+0.0029	731 - 858	12.4108	12.3025	12.3993	-1.9	12.427	-1.5	12.4695	-0.7	93.5
Portugal	(Es)	286.221	+0.896	110 - 331	286.695	284.459	285.397	3.5	284.027	3.1	278.999	2.5	92.9
Spain	(Pta)	237.484	+0.615	343 - 624	238.050	235.930	236.803	3.4	235.646	3.1	231.495	2.5	77.5
Sweden	(SKr)	13.4383	+0.0538	267 - 498	13.4874	13.2916	13.4018	3.3	13.3372	3.0	13.1282	2.3	79.2
Switzerland	(SFr)	2.2786	-0.0008	772 - 800	2.2865	2.2627	2.2686	5.3	2.2502	5.0	2.1824	4.2	108.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.3
Ecu	-	1.4213	+0.0019	205 - 220	1.4235	1.4142	1.4177	3.1	1.4106	3.0	1.3859	2.5	-
SDR†	-	1.193100	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6638	+0.0003	634 - 642	1.6689	1.6602	-	-	-	-	-	-	-
Brazil	(R$)	2.0013	+0.0011	006 - 019	2.0083	1.9953	-	-	-	-	-	-	-
Canada	(C$)	2.5425	-0.013	410 - 439	2.5572	2.5359	2.5388	1.7	2.5326	1.6	2.5142	1.1	76.4
Mexico	(New Peso)	16.6289	+0.0047	140 - 437	16.7735	16.6000	17.0869	-33.9	17.8951	-30.5	21.1024	-26.9	-
USA	($)	1.6648	+0.001	644 - 652	1.6693	1.6605	1.6631	1.2	1.6595	1.3	1.6501	0.9	105.4
Pacific/Middle East/Africa													
Australia	(A$)	2.6985	+0.0343	967 - 002	2.7002	2.6628	2.6941	2.0	2.6863	1.8	2.6656	1.2	77.9
Hong Kong	(HK$)	12.8967	+0.0094	928 - 006	12.9316	12.8636	12.8864	1.0	12.8803	0.5	13.0881	-1.5	-
India	(Rs)	70.8458	+0.0364	036 - 876	71.0150	70.7040	71.058	-3.6	71.7247	-5.0	76.0862	-7.4	-
Indonesia	(Rupiah)	12569.28	-12.85	978 - 878	12638.80	12240.70	12914.42	-33.0	13508.19	-29.9	15593.62	-24.1	-
Israel	(Shk)	6.9737	-0.0013	637 - 837	6.9774	6.9631	-	-	-	-	-	-	-
Japan	(Y)	197.321	-0.249	231 - 410	198.690	195.860	196.216	6.7	194.241	6.2	186.586	5.4	128.1
Malaysia	(M$)‡	6.3262	+0.0039	377 - 420	6.3428	6.3102	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.1933	+0.0173	903 - 962	3.1948	3.1601	3.1843	3.4	3.1729	2.6	3.1551	1.2	89.2
Philippines	(Peso)	65.0105	+0.4589	452 - 758	65.0916	64.9358	65.5115	-9.2	66.3509	-8.2	70.5709	-8.6	-
Saudi Arabia	(SR)	6.2484	+0.0059	440 - 487	6.2610	6.2310	6.244	0.5	6.2436	0.2	6.2622	-0.3	-
Singapore	(S$)	2.7586	+0.0217	571 - 601	2.7597	2.7385	2.7484	4.4	2.7298	4.2	2.6877	2.6	-
South Africa	(R)	9.7891	+0.2471	784 - 997	9.8110	9.5180	9.8867	-12.0	10.0549	-10.9	10.8412	-10.7	-
South Korea	(Won)	2022.40	-18.61	825 - 655	2044.53	2020.83	-	-	-	-	-	-	-
Taiwan	(T$)	53.8646	-0.0526	433 - 859	54.0823	53.7338	53.8944	-0.7	53.9496	-0.6	54.1893	-0.6	-
Thailand	(Bt)	59.9412	+0.121	851 - 972	59.9780	59.7280	59.9068	0.7	59.8574	0.6	60.8971	-1.6	-

† Rates for Dec 3. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.7879	+0.0098	849 - 910	11.8300	11.7080	11.7681	2.2	11.7389	1.7	11.5979	1.6	103.9
Belgium	(BFr)	34.5835	+0.0335	408 - 870	34.6700	34.3800	34.498	2.3	34.407	1.8	33.9965	1.6	103.6
Denmark	(DKr)	6.3712	+0.0088	699 - 725	6.3930	6.3315	6.3641	1.3	6.3522	1.2	6.3057	1.0	105.9
Finland	(FM)	5.0944	+0.0044	928 - 960	5.1130	5.0638	5.0855	2.1	5.0713	1.8	5.0119	1.6	81.0
France	(FFr)	5.6191	+0.0052	186 - 196	5.6385	5.5844	5.6084	2.3	5.5933	1.8	5.5258	1.7	106.7
Germany	(DM)	1.6755	+0.0014	751 - 759	1.6816	1.6658	1.6725	2.1	1.6679	1.8	1.6478	1.7	106.0
Greece	(Dr)	281.750	+0.245	690 - 890	282.850	279.820	283.18	-5.8	285.74	-5.6	295.405	-4.8	61.7
Ireland	(I£)	1.4825	-0.0042	800 - 850	1.4913	1.4796	1.4851	-2.1	1.489	-1.8	1.5075	-1.7	-
Italy	(L)	1659.08	+1.35	860 - 940	1665.18	1646.85	1656.12	2.1	1651.8	1.7	1632	1.6	76.1
Luxembourg	(LFr)	34.5835	+0.0335	400 - 870	34.6700	34.3800	34.498	2.3	34.407	1.8	33.9965	1.6	103.6
Netherlands	(Fl)	1.8886	+0.002	881 - 890	1.8951	1.8764	1.885	2.3	1.8798	1.9	1.857	1.7	103.0
Norway	(NKr)	7.4360	-0.003	340 - 380	7.4827	7.3804	7.4553	-3.1	7.4885	-2.8	7.5268	-1.6	92.8
Portugal	(Es)	171.925	+0.49	900 - 950	172.370	170.800	171.6	2.3	171.158	1.8	169.08	1.7	93.2
Spain	(Pta)	142.650	+0.4	600 - 700	142.930	141.700	142.382	2.3	142	1.8	140.285	1.7	77.3
Sweden	(SKr)	8.0720	+0.0272	670 - 770	8.0949	7.9748	8.058	2.1	8.037	1.7	7.998	1.4	79.1
Switzerland	(SFr)	1.3687	-0.0013	682 - 692	1.3791	1.3575	1.364	4.1	1.358	3.7	1.3227	3.4	103.5
UK	(£)	1.6648	+0.001	644 - 652	1.6693	1.6605	1.6631	1.2	1.6595	1.3	1.6501	0.9	100.0
Ecu	-	1.1714	-0.0008	710 - 717	1.1784	1.1676	1.1732	-1.9	1.1765	-1.7	1.1907	-1.7	-
SDR†	-	0.71500	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9994	-0.0004	994 - 994	0.9994	0.9994	-	-	-	-	-	-	-
Brazil	(R$)	1.2021	-0.0001	020 - 022	1.2023	1.2020	-	-	-	-	-	-	-
Canada	(C$)	1.5272	-0.0088	267 - 277	1.5390	1.5260	1.5265	0.8	1.5261	0.3	1.5236	0.2	75.9
Mexico	(New Peso)	9.9885	-0.0035	820 - 950	10.0050	9.9820	10.281	-35.1	10.7835	-31.8	12.7885	-28.0	107.0
USA	($)	-	-	-	-	-	-	-	-	-	-	-	-
Pacific/Middle East/Africa													
Australia	(A$)	1.6209	+0.0196	202 - 215	1.6221	1.5984	1.6201	0.6	1.6175	0.8	1.6068	0.9	78.7
Hong Kong	(HK$)	7.7467	+0.0007	462 - 472	7.7472	7.7462	7.7482	-0.2	7.7617	-0.8	7.9317	-2.4	-
India	(Rs)	42.5550	-0.005	400 - 700	42.5700	42.5000	42.7238	-4.8	43.2212	-6.3	46.11	-8.4	-
Indonesia	(Rupiah)	7550.00	-12.5	000 - 000	7650.00	7350.00	7785	-34.2	8140	-31.3	9450	-25.2	-
Israel	(Shk)	4.1889	-0.0035	839 - 939	4.1944	4.1839	-	-	-	-	-	-	-
Japan	(Y)	118.525	-0.225	500 - 550	119.400	117.350	117.98	5.5	117.05	5.0	113.075	4.6	129.0
Malaysia	(M$)‡	3.8000	-	300 - 300	3.8001	3.7997	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.9181	+0.0092	168 - 194	1.9227	1.8943	1.9212	-1.9	1.9268	-1.8	1.9454	-1.4	-
Philippines	(Peso)	39.0500	+0.25	000 - 000	39.2000	38.9000	39.39	-10.4	39.983	-9.6	42.7675	-9.5	-
Saudi Arabia	(SR)	3.7530	+0.0011	515 - 525	3.7525	3.7508	3.7542	-0.7	3.7622	-1.1	3.795	-1.1	-
Singapore	(S$)	1.6570	+0.012	565 - 575	1.6675	1.6430	1.6525	3.3	1.645	2.9	1.6287	1.7	-
South Africa	(R)	5.8800	+0.1447	750 - 850	5.8905	5.7100	5.9445	-13.2	6.059	-12.2	6.57	-11.7	-
South Korea	(Won)	1214.80	-11.95	260 - 700	1217.00	1212.60	-	-	-	-	-	-	-
Taiwan	(T$)	32.3550	-0.052	500 - 600	32.3600	32.3500	32.405	-1.9	32.51	-1.9	32.84	-1.5	-
Thailand	(Bt)	36.0050	+0.05	800 - 300	36.0300	35.9300	36.02	-0.5	36.07	-0.7	36.905	-2.5	-

† SDR rate per $ for Dec 3. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 5.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 3. Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Dec 4	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅜	3⅜	3⅜	3¼	3⅜	6.00	2.75	–
week ago	3½	3⅝	3⅜	3⅜	3⅜	6.00	2.75	–
France	3⅛	3⅜	3⅜	3⅜	3¼	4.60	–	3.00
week ago	3½	3⅝	3½	3⅝	3⅝	4.60	–	3.30
Germany	3⅜	3⅜	3⅜	3⅜	3⅜	4.50	2.50	3.00
week ago	3⅜	3⅝	3⅝	3⅝	3⅝	4.50	2.50	3.30
Ireland	3½	3⅜	3⅜	3⅜	3¼	–	–	3.00
week ago	4	3⅝	3⅝	3⅝	3½	–	–	3.69
Italy	3⅝	3⅝	3⅝	3⅝	3⅜	4.50	3.50	4.08
week ago	3⅞	3⅞	3⅞	3⅝	3⅜	5.50	4.00	4.08
Netherlands	3	3⅜	3⅜	3¼	3⅜	–	2.75	3.00
week ago	3¾	3⅞	4	4	4	–	2.75	3.30
Switzerland	⅞	1⅛	1⅛	1½	1½	–	1.00	–
week ago	1⅛	1⅛	1⅛	1¼	1¾	–	1.00	–
US	4¾	5⅛	5⅛	5	4¾	–	4.50	–
week ago	5⅛	5⅛	5⅛	5⅛	5⅛	–	4.50	–
Japan	¼	¼	¼	⅜	¼	–	0.50	–
week ago	¼	¼	¼	⅜	¼	–	0.50	–
$ LIBOR BBA London								
Interbank Fixing	–	5⅛	5¼	5⅛	5	–	–	–
week ago	–	5⅛	5¼	5⅛	5⅛	–	–	–
US Dollar CDs	–	4.82	4.74	4.72	4.68	–	–	–
week ago	–	4.74	4.80	4.79	4.78	–	–	–
ECU Linked Ds	–	3⅝	3⅝	3½	3⅜	–	–	–
week ago	–	3⅝	3⅝	3⅝	3⅜	–	–	–
SDR Linked Ds	–	3⅜	3⅝	3⅜	3⅜	–	–	–
week ago	–	3⅜	3⅝	3⅜	3⅜	–	–	–

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 4	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3¼	3⅜ - 3⅜	3½ - 3⅜	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3⅜
Danish Krone	4½ - 4⅜	4⅜ - 3⅞	4⅜ - 3⅞	4⅜ - 3⅞	4⅜ - 3⅞	4⅜ - 3⅞
German Mark	3⅝ - 3	3½ - 3⅜	3⅜ - 3⅜	3⅝ - 3⅜	3⅜ - 3¼	3⅜ - 3⅜
Dutch Guilder	2⅝ - 2½	3 - 2⅞	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3¼ - 3⅛
French Franc	3½ - 3⅛	3⅜ - 3⅛	3⅜ - 3⅜	3⅜ - 3⅜	3⅜ - 3⅜	3⅜ - 3⅜
Portuguese Esc.	3⅞ - 3¾	3⅝ - 3⅝	3⅞ - 3⅞	3⅞ - 3¾	3⅞ - 3⅝	3⅝ - 3⅜
Spanish Peseta	3⅜ - 3	3⅜ - 3⅛	3⅜ - 3⅜	3⅝ - 3⅜	3⅜ - 3⅜	3⅜ - 3⅜
Sterling	6⅞ - 6¾	6⅞ - 6¾	6⅞ - 6⅝	6⅝ - 6½	6⅜ - 6⅛	6⅛ - 5⅞
Swiss Franc	1 - ⅞	1 - ⅞	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛
Canadian Dollar	5 - 4⅞	5 - 4⅞	5⅛ - 4⅞	4⅞ - 4⅞	4⅞ - 4¾	4⅞ - 4⅞
US Dollar	4⅞ - 4⅞	4⅞ - 4⅞	5½ - 5¼	5⅛ - 5⅛	5⅛ - 4⅞	4⅞ - 4⅞
Italian Lira	3⅝ - 3⅝	3⅞ - 3⅞	3⅞ - 3⅞	3⅝ - 3⅝	3⅝ - 3⅝	3¾ - 3⅝
Japanese Yen	⅜ - ⅛	⅜ - ⅛	⅜ - ⅛	⅜ - ⅛	⅜ - ⅛	⅜ - ⅛
Asian $Sing	½ - ¼	1 - ⅞	1½ - 1⅜	2 - 1⅞	2⅜ - 2⅛	3¼ - 2⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.80	94.81	+0.01	94.84	94.80	67,710	410,535
Mar	95.27	95.19	-0.06	95.29	95.17	103,234	493,769
Jun	95.36	95.24	-0.11	95.40	95.22	115,825	402,359

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.73	95.70	-0.03	95.73	95.68	29	1,756
Mar	96.05	95.95	-0.08	96.05	95.95	75	744
Jun	96.15	96.07	-0.10	96.15	96.07	8	41

All Open interest figs. are for previous day

■ POUND IN NEW YORK

Dec 4	—Close —	— Prev. close —
£ spot	1.6645	1.6655
1 mth	1.6630	1.6638
3 mth	1.6593	1.6597
1 yr	1.6500	1.6499

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies and Finance page in today's edition.

■ OTHER CURRENCIES

Dec 4	£	$
Czech Rp	50.2982 - 50.3890	30.2200 - 30.2600
Hungary	364.088 - 364.512	218.750 - 218.900
Iran	4995.60 - 4993.20	3000.00 - 3000.00
Kuwait	0.5035 - 0.5042	0.3025 - 0.3028
Peru	5.2345 - 5.2420	3.1450 - 3.1480
Poland	5.7888 - 5.8016	3.4780 - 3.4840
Russia	34.7880 - 35.8018	20.9000 - 21.5000
U.A.E.	6.1127 - 6.1173	3.6726 - 3.6736

BANK RETURN

The Bank Return table can be found on page 35 in today's edition.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 4		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.43	16.26	4.848	1.952	4800	5.464	21.51	497.4	412.7	23.35	3.960	1.738	4.419	2.893	342.9	2.470
Denmark	(DKr)	54.25	10	8.820	2.630	1.059	2604	2.964	11.67	269.8	223.9	12.67	2.148	0.943	2.397	1.570	186.0	1.340
France	(FFr)	61.51	11.34	10	2.982	1.200	2952	3.361	13.23	306.0	253.9	14.37	2.436	1.069	2.718	1.780	210.9	1.519
Germany	(DM)	20.63	3.803	3.354	1	0.403	990.2	1.127	4.438	102.6	85.14	4.816	0.817	0.358	0.911	0.597	70.74	0.510
Ireland	(I£)	51.24	9.445	8.330	2.484	1	2458	2.800	11.02	254.9	211.5	11.97	2.029	0.891	2.264	1.483	175.7	1.266
Italy	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.448	10.36	8.599	0.487	0.083	0.036	0.092	0.060	7.144	0.051
Netherlands	(Fl)	18.30	3.374	2.975	0.887	0.357	878.4	1	3.937	91.03	75.53	4.274	0.725	0.318	0.809	0.530	62.76	0.452
Norway	(NKr)	46.48	8.568	7.557	2.253	0.907	2231	2.540	10	231.2	191.8	10.86	1.841	0.808	2.054	1.345	159.4	1.148
Portugal	(Es)	20.10	3.706	3.268	0.975	0.392	965.0	1.099	4.325	100	82.97	4.695	0.796	0.349	0.888	0.582	68.94	0.497
Spain	(Pta)	24.23	4.466	3.939	1.175	0.473	1163	1.324	5.213	120.5	100	5.659	0.959	0.421	1.071	0.701	83.09	0.598
Sweden	(SKr)	42.82	7.893	6.961	2.076	0.836	2055	2.340	9.212	213.0	176.7	10	1.696	0.744	1.892	1.239	146.8	1.058
Switzerland	(SFr)	25.25	4.655	4.105	1.224	0.493	1212	1.380	5.433	125.6	104.2	5.898	1	0.439	1.116	0.731	86.60	0.624
UK	(£)	57.54	10.61	9.355	2.789	1.123	2762	3.144	12.38	286.2	237.5	13.44	2.279	1	2.542	1.665	197.3	1.421
Canada	(C$)	22.63	4.172	3.679	1.097	0.442	1086	1.237	4.869	112.6	93.41	5.285	0.896	0.393	1	0.655	77.61	0.559
USA	($)	34.56	6.371	5.619	1.676	0.675	1659	1.889	7.438	171.9	142.7	8.072	1.369	0.601	1.527	1	118.5	0.854
Japan	(Y)	29.16	5.375	4.741	1.414	0.569	1400	1.593	6.274	145.1	120.4	6.810	1.155	0.507	1.289	0.844	100	0.720
Ecu	–	40.49	7.463	6.582	1.963	0.790	1943	2.212	8.711	201.4	167.1	9.456	1.603	0.704	1.789	1.171	138.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.5989	0.5973	-0.0012	0.6009	0.5948	35,626	74,604
Mar	0.6035	0.6001	-0.0011	0.6060	0.5975	14,874	17,174
Jun	–	0.6026	-0.0010	–	0.6000	11	1,184

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7340	0.7319	-0.0015	0.7373	0.7278	11,518	40,593
Mar	0.7402	0.7387	-0.0015	0.7433	0.7347	1,113	9,432
Jun	–	0.7448	-0.0014	0.7463	0.7410	1	47

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8448	0.8407	-0.0036	0.8526	0.8382	31,352	67,131
Mar	0.8560	0.8514	-0.0035	0.8635	0.8488	11,486	18,296
Jun	0.8620	0.8610	-0.0035	0.8630	0.8610	10	3,545

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.6646	1.6646	-0.0002	1.6682	1.6590	6,403	47,193
Mar	1.6620	1.6594	–	1.6620	1.6540	2,825	7,925
Jun	–	1.6546	+0.0002	1.6580	1.6480	1	1,218

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.650	1.74	2.58	3.05	0.33	1.37	2.01
1.660	1.05	2.08	2.51	0.59	1.80	2.51
1.670	0.65	1.65	2.14	1.05	2.29	2.91

Previous day's vol., Calls 16 Puts 2 . Prev. day's open int., Calls 665 Puts 4,628

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
0.590	0.87	1.33	1.59	0.10	0.44	0.63
0.595	0.50	1.02	1.29	0.22	0.63	0.83
0.600	0.25	0.75	1.02	0.45	0.86	1.07

Previous day's vol., Calls 144 Puts 29 . Prev. day's open int., Calls 2,219 Puts 10,343

BENCHMARK GOVERNMENT BONDS

Dec 4	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.8607	4.28	-0.10	-0.31	-0.22	-0.90
	08/08	8.750	130.8438	4.74	-0.04	-0.39	-0.32	-1.39
Austria	07/00	5.875	104.0800	3.21	-0.02	-0.25	-0.32	-1.28
	01/08	5.000	106.4700	4.13	-0.02	-0.10	-0.23	-1.35
Belgium	01/00	4.000	100.7800	3.27	+0.05	-0.08	-0.23	-0.97
	03/08	5.750	112.2200	4.14	-0.02	-0.09	-0.23	-1.39
Canada	12/00	5.000	100.6200	4.67	+0.12	-0.21	-0.11	+0.13
	06/08	6.000	108.5500	4.86	+0.08	-0.23	-0.36	-0.71
Denmark	11/00	8.000	109.3700	3.86	-0.04	-0.08	-0.20	-0.85
	11/07	7.000	119.2700	4.35	–	-0.09	-0.31	-1.51
Finland	01/99	11.000	100.7440	2.82	-0.02	-0.07	-0.22	-1.41
	04/08	6.000	113.8560	4.18	-0.01	-0.06	-0.30	-1.37
France	07/00	4.000	101.1600	3.23	–	-0.10	-0.23	-1.09
	10/05	7.750	124.5080	3.85	-0.01	-0.09	-0.25	-1.50
	10/08	8.500	136.3300	3.98	-0.02	-0.09	-0.28	-1.42
	04/29	5.500	110.6600	4.82	-0.03	-0.07	-0.40	-1.10
Germany	06/00	4.000	101.1900	3.23	+0.03	-0.08	-0.20	-0.99
	10/05	6.500	116.1200	3.78	–	-0.09	-0.28	-1.40
	07/08	4.750	106.8500	3.90	-0.01	-0.09	-0.25	-1.49
	01/28	5.625	112.5100	4.82	-0.04	-0.06	-0.39	-1.13
Ireland	10/01	6.500	108.3200	3.41	–	-0.11	-0.27	-1.77
	08/08	6.000	114.6800	4.13	-0.02	-0.11	-0.30	-1.64
Italy	04/01	4.500	102.5000	3.37	-0.02	-0.11	-0.30	-1.68
	07/03	4.500	103.9300	3.56	-0.03	-0.12	-0.37	-1.79
	05/08	5.000	106.8900	4.09	-0.04	-0.11	-0.36	-1.65
	11/27	6.500	122.5300	5.01	-0.04	-0.07	-0.39	-1.21
Japan	12/00	6.900	112.8480	0.47	+0.09	+0.14	+0.13	+0.01
	12/03	4.100	116.3260	0.78	-0.01	+0.02	+0.08	-0.42
	06/08	1.800	106.4210	1.09	-0.04	-0.02	+0.19	-0.57
	03/18	2.700	113.8890	1.84	-0.05	+0.01	+0.32	-0.67
Netherlands	05/00	9.000	107.8700	3.24	-0.02	-0.12	-0.25	-1.09
	07/08	5.250	109.7800	4.00	-0.03	-0.10	-0.24	-1.36
New Zealand	02/01	8.000	108.4097	4.82	-0.04	-0.13	-0.34	-2.21
	07/09	7.000	113.3871	5.33	-0.02	-0.29	-0.17	-1.37
Norway	01/99	9.000	100.0750	7.85	-0.04	-0.04	-0.03	+3.50
	01/07	6.750	109.5000	5.23	-0.02	+0.02	-0.27	-0.27
Portugal	03/00	5.375	102.5000	3.34	-0.03	-0.16	-0.19	-1.48
	06/08	5.375	108.9400	4.21	-0.02	-0.09	-0.29	-1.55
Spain	04/00	6.750	104.5200	3.24	+0.03	-0.12	-0.24	-1.39
	01/08	6.000	113.8400	4.15	-0.02	-0.11	-0.34	-1.52
Sweden	05/00	10.250	108.9390	3.56	+0.01	-0.14	-0.38	-1.84
	05/08	6.500	116.5290	4.32	+0.02	-0.08	-0.30	-1.83
Switzerland	08/00	4.500	104.4400	1.47	-0.02	-0.03	+0.09	-0.33
	01/08	4.250	115.7500	2.31	+0.01	-0.10	-0.26	-1.19
UK	11/01	7.000	105.7900	4.84	-0.03	-0.28	-0.33	-2.15
	12/03	6.500	108.6800	4.54	-0.01	-0.21	-0.34	-2.04
	10/08	9.000	134.2800	4.63	–	-0.13	-0.41	-1.83
	12/28	6.000	125.2300	4.47	+0.04	-0.09	-0.35	-1.91
US	09/00	4.500	99.9375	4.53	+0.12	-0.13	+0.02	-1.20
	08/03	5.250	103.1875	4.48	+0.11	-0.16	-0.04	-1.34
	05/08	5.625	107.1250	4.68	+0.05	-0.17	-0.21	-1.16
	08/28	5.500	105.3438	5.15	+0.05	-0.07	-0.17	-0.93
ECU	07/00	4.000	101.1100	3.26	+0.04	-0.09	-0.24	-1.36
	04/08	5.250	109.7300	3.98	-0.03	-0.11	-0.30	-1.54

London closing. * New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

UK INTEREST RATES

LONDON MONEY RATES

Dec 4	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¼ - 6	7¼ - 6¾	6⅞ - 6⅝	6⅝ - 6⅜	6⅜ - 6⅛	6 - 5⅞
Sterling CDs	-	-	6⅞ - 6⅝	6⅜ - 6½	6⅜ - 6¼	6⅛ - 6
Treasury Bills	-	-	6½ - 6⅜	6⅜ - 6⅛	-	-
Bank Bills	-	-	6½ - 6⅜	6⅜ - 6¼	6⅛ - 6⅛	-
Local authority deps.	6⅝ - 6½	6⅝ - 6½	6⅞ - 6⅝	6¾ - 6⅝	6½ - 6¾	6⅛ - 6⅛
Discount Market deps	6⅝ - 6½	6⅝ - 6½	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from Nov 5, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc.
Ave. tender rate of discount on Dec 4 5.9331pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 30, 1998. Agreed rate for period Dec 26, 1998 to Jan 25, 1999, Scheme III 8.24pc. Reference rate for period Oct 31, 1998 to Nov 30, 1998, Schemes IV & V 6.986pc. Finance House Base Rate 7½pc for Dec 1998.

BANK OF ENGLAND TREASURY BILL TENDER

	Dec 4	Nov 27		Dec 4	Nov 27
Bills on offer	£100m	£100m	Top accepted rate	5.9362%	6.3173%
Total of applications	£739m	£734m	Ave. rate of discount	5.9331%	6.3173%
Total allocated	£100m	£100m	Average yield	6.0221%	6.4184%
Min. accepted bid	£98.520	£98.445	Offer at next tender	£100m	£100m
Allotment at min. level	66%	100%	Min. accept. bid 28 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Exeter Trust Limited	7.75	●Singer & Friedlander	6.75
Allied Irish Bank (GB)	6.75	Financial & Gen Bank	8.00	Smith & Williamson	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	Sun Bank	6.75
Banco Bilbao Vizcaya	6.75	Habib Bank AG Zurich	6.75	TSB	6.75
Bank of Cyprus	6.75	Heritable & Gen Inv Bk	6.75	United Bank of Kuwait	6.75
Bank of Ireland	6.75	C. Hoare & Co	6.75	Unity Trust Bank Plc	6.75
Bank of India	6.75	●SG Hambros Bank & Trust	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	Hongkong & Shanghai	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	Investec Bank (UK) Ltd	6.75		
Brit Bk of Mid East	6.75	Julian Hodge Bank	6.75		
●Brown Shipley & Co Ltd	6.75	●Leopold Joseph & Sons	6.75		
Citibank NA	6.75	Lloyds Bank	6.75		
Clydesdale Bank	6.75	Midland Bank	6.75		
The Co-operative Bank	6.75	NatWestminster	6.75		
Coutts & Co	6.75	●Rea Brothers	6.75		
Cyprus Popular Bank	7.25	Royal Bk of Scotland	6.75		
Duncan Lawrie	6.75	Scottish Widows Bank	6.75		

● Members of London Investment Banking Association

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts* (Lives up to Five Years)						
Treas 9½pc 1999	100.3147	----	1,900	Jy15 Ja15	6.7	1347
Treas Flg Rate 1999	100.0387xd	----	5,700	Mr Je Se De	2.12	4945
Exch 12¼pc 1999	101.8002	----	3,050	Se26 Mr26	17.9	1264
Treas 10½pc 1999	102.0265	----	1,252	Nv19 My19	10.11	1288
Treas 6pc 1999	100.1540	0.2	6,950	Fe10 Au10	3.8	3835
Conv 10¼pc 1999	104.2728	0.1	1,798	My22 Nv22	12.11	1242
Treas 8½pc 2000 ‡	103.3565	0.3	109	Jy28 Ja28	27.7	–
Conv 9pc 2000	104.2045	0.2	5,358	Se3 Mr3	24.8	1244
Treas 13pc 2000	111.6559	0.3	3,171	Ja14 Jy14	3.7	1288
Treas 8pc 2000	105.5478xd	0.4	9,800	Je7 De7	30.11	4948
Treas Flg Rate 2001	100.7955	----	3,000	Mr Je Se De	5.10	–
Treas 10pc 2001	110.0911	0.4	4,406	Au26 Fe26	17.8	1280
Conv 9½pc 2001 ‡	110.4181	0.5	3	Ja12 Jy12	8.7	–
Conv 9¾pc 2001 ‡	111.3141	0.5	35	Fe10 Au10	3.8	–
Treas 7pc 2001	105.7822	0.6	12,750	My6 Nv6	28.10	3031
Exch 12pc 1999-2 ‡	100.6050	-.1	105	Jy22 Ja22	13.7	–
Conv 10pc 2002 ‡	115.8317	0.7	21	Oc11 Ap11	5.10	–
Treas 7pc 2002	107.2328xd	0.7	9,000	De7 Je7	30.11	–
Conv 9¾pc 2002 ‡	114.9637xd	0.7	2	De14 Je14	3.12	–
Treas 9¾pc 2002	116.5427	0.7	6,527	Fe27 Au27	24.8	1349
Exch 9pc 2002 ‡	114.7617	0.8	83	My19 Nv19	10.11	–
Conv 9¾pc 2003 ‡	119.1867	0.8	11	Nv7 My7	29.10	–
Treas 8pc 2003	113.4536xd	0.8	8,600	Je10 De10	1.12	2016
Treas 10pc 2003	122.2476	0.8	2,903	Mr8 Se8	1.8	1281
Treas 13¾pc 2000-3 ‡	113.0208	0.2	53	Ja25 Jy25	20.7	–
Five to Fifteen Years						
Treas 6½pc 2003	108.6714xd	0.9	5,446	Je7 De7	30.11	–
Treas 11½pc 2001-4	113.4092	0.4	1,620	Se19 Mr19	14.8	1280
Treas 10pc 2004 ‡	125.0058	0.9	23	Nv18 My18	9.11	–
Funding 3½pc 1999-4	88.6700	0.7	543	Ja14 Jy14	3.7	1274
Conv 9½pc 2004	124.2679	0.9	3,412	Ap25 Oc25	19.10	1248
Treas 6¾pc 2004	111.3485	0.9	6,500	My26 Nv26	17.11	3541
Conv 9½pc 2005	125.9287	0.8	4,842	Oc18 Ap18	8.10	1247
Exch 10½pc 2005 ‡	133.0747	0.9	23	Mr20 Se20	14.9	–
Treas 12½pc 2003-5	134.2519	0.8	2,200	My21 Nv21	12.11	1295
Treas 8½pc 2005	122.6984xd	0.8	10,373	Je7 De7	30.11	4946
Conv 9¾pc 2006 ‡	133.1199	0.6	6	My15 Nv15	9.11	–
Treas 7½pc 2006	116.6203xd	0.9	11,700	Je7 De7	30.11	1148
Treas 7¾pc 2006	119.5473	0.9	4,000	Mr8 Se8	1.9	2300
Treas 8pc 2002-6	110.8987	0.8	2,050	Ap5 Oc5	24.9	1334
Treas 11¾pc 2003-7 ‡	125.4717	0.7	3,150	Jy22 Ja22	13.7	1288
Treas 8½pc 2007	126.5899	0.8	7,397	Ja16 Jy16	10.7	1339
Treas 7¼pc 2007	119.3069xd	0.7	11,000	Je7 De7	30.11	2504
Treas 13½pc 2004-8 ‡	140.7919	0.6	95	Se26 Mr26	21.8	–
Treas 9pc 2008	134.2650	0.8	5,621	Ap13 Oc13	2.10	1343
Treas 8pc 2009	128.8890	0.9	3,450	Mr25 Se25	16.8	1336
Treas 5¾pc 2009	110.6541xd	1.0	2,500	Je7 De7	30.11	–
Treas 6¼pc 2010	114.6960	0.8	4,750	My25 Nv25	16.11	4632
Conv 9pc Ln 2011	140.5980	0.8	5,273	Jy12 Ja12	3.7	1245
Treas 9pc 2012	142.8297	0.9	5,360	Fe6 Au6	28.7	1701
Treas 5½pc 2008-12	108.3501	0.7	1,000	Mr10 Se10	1.9	1350
Treas 8pc 2013	134.6764	0.8	6,100	Mr27 Se27	17.8	2229
Treas 7¾pc 2012-15	129.0742	0.8	800	Jy26 Ja26	20.7	1332
Over Fifteen Years						
Treas 8pc 2015	138.0189xd	0.8	13,787	Je7 De7	30.11	4992
Treas 8¾pc 2017	150.5758	0.6	7,550	Fe25 Au25	17.8	1862
Exch 12pc 2013-17 ‡	177.9480xd	1.5	57	Je12 De12	3.12	–
Treas 8pc 2021	147.3499xd	0.5	16,500	Je7 De7	30.11	–
Treas 6pc 2028	125.2087xd	0.4	5,000	De7 Je7	30.11	–
Undated						
Consols 4pc	81.6700	1.4	359	Au1 Fe1	24.7	1239
War Loan 3½pc	74.2214	0.9	1,909	Je1 De1	17.11	1352
Conv 3½pc '61 Aft.	81.2214	0.7	115	Ap1 Oc1	22.9	1243
Treas 3pc '66 Aft.	57.5325	0.3	55	Ap5 Oc5	24.9	1324
Consols 2½pc	52.5325	-1.6	276	5.Ja Ap Jy Oc	24.9	1238
Treas. 2½pc	51.5041	0.6	475	Ap1 Oc1	22.9	1315

Index-Linked (b)	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
2½pc '99 ‡	198.0258	0.1	2	My22 Nv22	12.11	–
2½pc '01 (78.3)	206.2438	0.5	2,150	Mr24 Se24	15.9	1316
2½pc '03 (78.8)	206.9578	0.7	2,700	My20 Nv20	11.11	1317
4⅝pc '04 (135.6)	133.3886	0.8	1,300	Ap21 Oc21	19.10	1255
2pc '06 (69.5)	226.8269	1.1	2,500	Ja19 Jy19	10.7	1314
2½pc '09 (78.8)	210.9992	1.4	2,625	My20 Nv20	11.11	1318
2½pc '11 (74.6)	223.4185	1.6	3,100	Fe23 Au23	17.8	1319
2½pc '13 (89.2)	187.3766	1.7	3,750	Fe16 Au16	10.8	1320
2½pc '16 (81.6)	206.4620	1.9	4,125	Ja26 Jy26	20.7	1321
2½pc '20 (83.0)	204.9096	2.0	3,800	Ap16 Oc16	7.10	1322
2½pc '24 (97.7)	176.8512	2.3	4,000	Ja17 Jy17	10.7	1323
4⅛pc '30 (135.1)	175.0472	2.5	1,850	Ja16 Jy22	13.7	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for March 1998: 160.8 and for October 1998: 164.5

Other Fixed Interest

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009	137⅞	0.8	100	Mr24 Se24	3.97	–
B'ham 11½pc 2012	159½	3.7	45	My15 Nv15	12.10	1837
Leeds 13½pc 2006	145	-3	40	Ap1 Oc1	14.9	3146
Liverpool 3½pc Irred.	65	10.2	5	1.Ap Jy Oc Ja	1.9	–
LCC 3pc '20 Aft.	64xd	0.0	26	1.Mr Je Se De	2.11	–
Manchester 11½pc 2007	141	1.4	6	Ap25 Oc25	28.9	3275
Met. Wtr. 3pc 'B'	95	8.0	25	Mr1 Se1	3.8	3361
Nat'l Anglia 7⅞pc IL 2021	198⅞	—	60	Ja30 Jy30	22.6	–
4⅛pc IL 2024	178⅞	—	50	Au23 Fe23	3.8	–

● "Tap" stock. All UK Gilts are tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis. ‡ Indicative price.

EURO PRICES

EQUITIES

Rate cuts fail to extend rally

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets had so much to ponder last week that investors could be forgiven for wishing life were a little quieter.

This week might provide some respite, allowing time to consider whether the co-ordinated rate cut delivered on Thursday by Europe's central banks or growing worries about a fall in corporate earnings should set the tone for markets.

The latter concern could be heightened today when data on German industrial output, manufacturing orders and inflation are published. Analysts are becoming ever more bearish on the earnings front and urging investors to buy defensive sectors such as pharmaceuticals and retail.

The slowing European economy is the main reason for worries about earnings, and lies behind the failure of Europe's main markets to turn Thursday's gains, inspired by the interest rate cuts, into a more sustained rally.

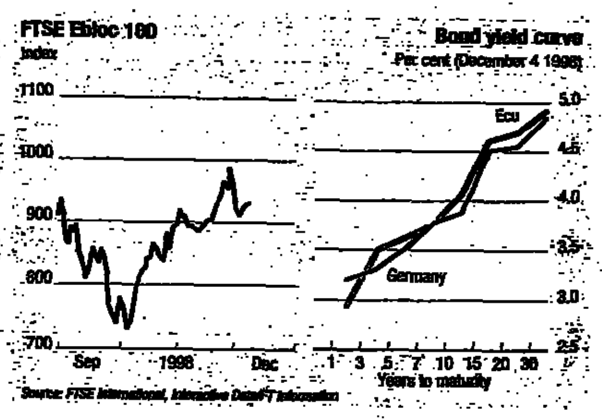
Markets finished the week looking rather jaded, which could be the tone for the next few days. The FTSE Eurotop 300 index of leading European shares closed at 1,115.29, down 64 points on the week. The FTSE Eurotop 100 index closed at 2,570.02, down 171.88, while the FTSE Ebloc 100 index of shares in euro-zone countries, the beneficiaries of the interest rate cut, ended the week at 930.48, down 59.07.

Nevertheless, the rate cuts widely interpreted as the last hurrah from the Bundesbank as it hands over the reins of economic power in Europe to the European Central Bank should give a boost to flagging longer-term confidence, a key missing ingredient in the markets, which are still sensitive to external shocks.

The UK could follow Europe's lead and cut interest rates on Thursday, after the Bank of England's monetary policy committee meeting. Analysts say the scope for a UK cut has widened substantially, with talk that the base rate could fall by as much as 50 basis points.

Investors will also be keeping an eye on the European Union summit in Vienna, which begins on Friday, for signs that the row about harmonising taxes in Europe does not overshadow the run-up to the launch of the euro.

FTSE Ebloc 100 — Index | Bond yield curve — Per cent (December 4 1998)



Source: FTSE International, Interactive Data/FT Information

THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.500	96.530	+0.050	96.600	96.500	603	9242
Mar	96.840	96.845	-0.035	96.840	96.840	10	5984
Jun	-	96.870	-0.040	-	-	0	2241
Sep	-	96.865	-0.045	-	-	0	1190

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
96750	0	0.120	0.140	0.155	0.220	0.025	0.045	0.060
96875	0				0.345			

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2575.0	2580.0	+10.0	2575.0	2575.0	15	6893
Mar	2578.0	2596.0	+10.0	2578.0	2580.0	29	1240

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2500 C	2500 P	2525 C	2525 P	2550 C	2550 P	2600 C	2600 P	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P
Dec	107	45	98	53	76	62	48	86	30	119	18	157	11	201	6	246
Jan	169	101	139	120	113	143	86	170	66	200	52	232	39	270	220	142

Est vol total:0 . Prev day's open interest total: 7,351 . Premiums shown are based on settlement prices.

OTHER INDICES

	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3094.17	3080.14	3037.19	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3079.64	3084.56	3017.88	3888.48	2419.23	3888.48	2419.23
MSCI Europe	(u)	1111.23	1096.22	1315.95	906.59	1315.95	510.76

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Dec 4 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1115.29	+0.53	+5.83	2.47	24.96	1147.85
FTSE Eurotop 100	2570.02	+0.40	+10.34	2.49	38.81	920.78
FTSE Ebloc 100	930.48	+0.57	+5.24	2.27	14.94	944.38
FTSE EuroMid	1092.53	+0.27	+2.93	3.02	0.86	1130.76
FTSE EuroMid Ebloc	1159.22	-0.01	-0.08	2.54	0.02	1183.23
FTSE EuroMid Ex UK	1148.72	+0.26	+2.99	2.44	0.02	1169.60
FTSE Eurotop 300 Regions						
Eurobloc	1169.40	+0.55	+6.35	2.16	21.56	1199.29
UK	1035.98	+0.61	+6.30	2.98	34.00	1065.32
Europe Ex-Eurobloc	1072.35	+0.50	+5.37	2.81	27.33	1109.71
Europe Ex-UK	1161.15	+0.48	+5.58	2.23	19.91	1182.78
FTSE Eurotop Industry Sectors						
RESOURCES	816.67	-0.35	-2.88	3.49	29.22	854.01
Extractive Industries	741.56	-1.71	-12.89	4.65	14.54	757.22
Oil, Integrated	788.72	-0.28	-2.24	3.44	21.73	807.82
GENERAL INDUSTRIES	1017.84	+0.57	+5.76	2.71	21.29	1039.34
Construction	874.72	-1.34	-11.87	3.16	11.06	884.89
Building Matls & Merchs	858.17	-0.30	-2.54	2.61	6.96	865.59
Chemicals	815.44	-0.59	-4.86	2.97	17.45	829.84
Diversified Industrials	915.85	+2.11	+18.90	2.59	22.61	936.80
Electronic & Elect Equip	919.51	+0.94	+8.56	1.81	5.41	924.52
Engineering	835.45	+0.98	+8.18	3.99	12.32	848.27
Paper, Pckg & Printing	779.97	+0.92	+7.14	2.98	1.21	780.94
CONSUMER GOODS	1150.42	+0.72	+8.23	1.64	18.33	1181.84
Automobiles	848.57	-0.44	-3.79	2.89	10.25	856.44
Alcoholic Beverages	882.19	+2.56	+22.08	3.02	17.53	901.05
Food Producers	927.00	+0.41	+3.82	1.85	11.84	937.89
Household Goods & Texts	1013.13	+0.00	+0.04	1.87	8.94	1021.78
Healthcare	844.04	-1.06	-9.06	1.38	13.51	858.67
Pharmaceuticals	1028.59	+0.52	+5.27	1.26	5.27	1034.17
Tobacco	1322.51	+3.46	+44.20	3.86	15.88	1340.89
SERVICES	1128.62	+0.91	+10.12	2.10	23.04	1160.14
Distribution	732.10	-0.48	-3.55	2.97	11.37	740.32
Leisure & Hotels	755.31	-0.98	-7.51	3.39	12.27	765.19
Media	958.28	+2.21	+20.72	2.30	10.68	988.51
Retailers, Food	990.58	+0.70	+6.85	2.06	15.08	1005.71
Retailers, General	932.41	+0.81	+7.45	3.35	20.46	951.65
Telecommunications	1071.65	+1.29	+13.64	1.83	13.52	1085.18
Breweries, Pubs & Rests	765.13	-1.70	-13.22	3.49	16.00	778.67
Support Services	937.52	+1.75	+16.15	1.57	9.87	947.46
Transport	941.75	-0.07	-0.63	2.82	18.24	959.12
Information Technology	865.71	-0.91	-7.92	0.42	2.39	867.77
UTILITIES	1447.59	+0.57	+8.21	3.05	60.30	1593.42
Electricity	1084.74	+0.42	+4.58	3.23	30.43	1117.95
Gas Distribution	1210.43	+1.01	+12.12	1.53	93.32	1332.76
Water	1012.64	+0.55	+5.58	5.00	44.83	1057.40
FINANCIALS	1198.52	+0.34	+4.06	2.74	27.58	1230.84
Banks, Retail	820.60	-0.20	-1.64	3.57	13.20	831.86
Insurance	942.48	+1.10	+10.28	1.48	11.79	958.85
Life Insurance	1120.87	+1.20	+13.25	1.73	12.98	1135.42
Other Financial	851.40	+1.27	+10.86	2.27	15.95	865.62
Investment Companies	946.25	-0.47	-4.50	2.73	20.88	969.94
Property	655.34	-0.45	-2.98	3.77	21.26	672.37

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
Allied-Domq	7.25	-	7.5	1.4	5.9
Carlsberg A	46.06	-1.5	1.6	-	1.2
Carlsberg B	45.61	-1.3	1.3	0.1	1.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DISTRIBUTORS					
[illegible]	84.35	-3.8	3.8	0.1	1.0
[illegible]	84.44	-6	4.0	-	1.2
[illegible]	77.81	+2.4	1.7	-	1.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INFORMATION TECHNOLOGY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sections of the FTSE Eurotop 300 listing: ALCOHOLIC BEVERAGES, AUTOMOBILES, BANKS RETAIL, BREWERIES, PUBS & RESTAURANTS, BUILDING MATERIALS & MERCHANTS, CHEMICALS, CONSTRUCTION, DISTRIBUTORS, DIVERSIFIED INDUSTRIALS, ELECTRICITY, ELECTRONIC & ELECTRICAL EQPT., ENGINEERING, EXTRACTIVE INDUSTRIES, FOOD PRODUCERS, GAS DISTRIBUTION, HEALTH CARE, HOUSEHOLD GOODS & TEXTILES, INFORMATION TECHNOLOGY, INSURANCE, INVESTMENT COMPANIES, LEISURE & HOTELS, LIFE INSURANCE, MEDIA, OIL, INTEGRATED, OTHER FINANCIAL, PAPER PACKAGING & PRINTING, PHARMACEUTICALS, PROPERTY, RETAILERS, FOOD, RETAILERS, GENERAL, SUPPORT SERVICES, TELECOMMUNICATIONS, TOBACCO, TRANSPORT, WATER — [illegible]

CURRENCIES & MONEY

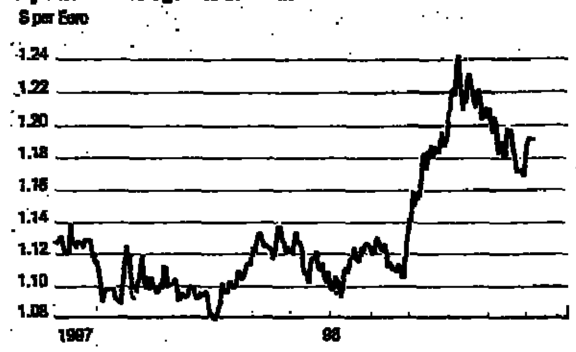
FT SYNTHETIC EURO RATES

Dec 03	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.051492	+0.0024	+0.02	+0.0009	+0.01
Belgium	BEF	41.194231	+0.0016	+0.00	-0.0074	-0.02
Czech Republic	CZK	35.987887	-0.1775	-0.49	+0.1272	+0.35
Denmark	DKK	7.582857	+0.0014	+0.02	-0.0011	-0.01
Finland	FIM	6.072361	+0.0020	+0.03	+0.0001	+0.00
France	FRF	6.697373	+0.0014	+0.02	+0.0017	+0.02
Germany	DEM	1.997198	+0.0004	+0.02	+0.0001	+0.01
Greece	GRD	335.882707	+0.1278	+0.04	+0.8163	+0.24
Hungary	HUF	261.169083	+0.3229	+0.12	+2.6392	+1.02
Ireland	IEP	0.802411	-0.0013	-0.16	-0.0008	-0.10
Italy	ITL	1977.573636	+0.4138	+0.02	+0.6100	+0.03
Luxembourg	LUF	41.194231	+0.0016	+0.00	-0.0074	-0.02
Netherlands	NLG	2.250711	+0.0003	+0.01	-0.0008	-0.04
Norway	NOK	8.874714	+0.0007	+0.01	+0.0676	+0.77
Poland	PLN	4.131353	-0.0222	-0.53	+0.0756	+1.86
Portugal	PTE	204.521684	-0.4152	-0.20	-0.2388	-0.12
Romania	ROL	12192.442848	+54.1337	+0.45	+305.9957	+2.58
Russia	RUB	23.859986	+0.9440	+4.12	+2.8316	+13.47
Slovakia	SKK	43.158503	-0.0083	-0.02	+0.1768	+0.41
Spain	ESP	169.704006	-0.2443	-0.14	-0.1634	-0.10
Sweden	SEK	9.597433	-0.0315	-0.33	-0.0210	-0.22
Switzerland	CHF	1.634408	-0.0016	-0.10	-0.0159	-0.98
United Kingdom	GBP	0.717111	-0.0014	-0.19	+0.0122	+1.73
ECU	ECU	1.017747	-0.0003	-0.03	+0.0032	+0.32
Americas						
Brazil	BRL	1.434223	+0.0013	+0.09	+0.0302	+2.15
Canada	CAD	1.832445	-0.0012	-0.06	+0.0186	+1.03
Mexico	MXN	11.920439	+0.0340	+0.29	+0.2857	+2.46
United States	USD	1.192998	-0.0005	-0.05	+0.0215	+1.84
Pacific/Middle East/Africa						
Australia	AUD	1.910348	+0.0237	+1.26	+0.0800	+4.37
Hong Kong	HKD	9.240865	-0.0027	-0.03	+0.1703	+1.88
Japan	JPY	141.868548	-2.1770	-1.51	-1.1724	-0.82
Singapore	SGD	1.962482	-0.0033	-0.17	+0.0413	+2.15
South Africa	ZAR	6.842203	+0.0927	+1.37	+0.1897	+2.84

Source: FTSE International Ltd.This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3384, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0396, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0326, FIM 0.0187.

Synthetic Euro against the dollar

$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Dec 04	Fixed rate	Market rate	Diff fxd v mkt%	Week ago %	Forward rate	Forward Int rate	Diff Int rate v DEM
Austria	7.03552	7.0355	+0.00	+0.01	7.035	3.35	-0.10
Belgium	20.6255	20.6288	+0.02	+0.04	20.6285	3.3	-0.15
France	3.35386	3.3537	+0.00	-0.02	3.3533	3.28	-0.17
Finland	3.04001	3.0405	+0.02	+0.03	3.0408	3.5	+0.05
Ireland	0.402676	0.4026	-0.02	-0.07	0.4026	3.45	+0.00
Italy	990.002	990.1522	+0.02	-0.03	990.1837	3.49	+0.04
Luxembourg	20.6255	20.6288	+0.02	+0.04	20.6285	3.3	-0.15
Netherlands	1.12674	1.1272	+0.04	+0.07	1.127	3.2	-0.25
Portugal	102.505	102.6112	+0.10	+0.03	102.6006	3.31	-0.14
Spain	85.0722	85.1388	+0.08	+0.03	85.1309	3.32	-0.13
Germany	1		+0.00	+0.00		3.45	+0.00

Source. The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Dec 04	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.26	3.29	3.30	3.34	0.00	0.00	4.89	4.92	0.45	0.48
2 year	3.32	3.35	3.33	3.37	5.68	5.72	4.89	4.92	0.52	0.55
3 year	3.41	3.44	3.42	3.46	5.63	5.67	4.97	5.00	0.63	0.66
4 year	3.54	3.57	3.55	3.59	5.64	5.68	5.04	5.07	0.75	0.78
5 year	3.69	3.72	3.69	3.73	5.61	5.65	5.09	5.12	0.88	0.91
6 year	3.85	3.88	3.85	3.89	5.58	5.62	5.15	5.18	1.00	1.03
7 year	4.00	4.03	4.00	4.04	5.55	5.59	5.21	5.24	1.12	1.15
8 year	4.13	4.16	4.13	4.17	5.52	5.56	5.27	5.30	1.24	1.27
9 year	4.23	4.26	4.23	4.27	5.51	5.55	5.33	5.36	1.36	1.39
10 year	4.31	4.34	4.31	4.35	5.51	5.55	5.39	5.42	1.46	1.49
12 year	4.45	4.48	4.45	4.49	5.49	5.54	5.47	5.50	1.68	1.72
15 year	4.64	4.67	4.64	4.68	5.46	5.52	5.57	5.60	1.90	1.94
20 year	4.85	4.88	4.85	4.89	5.43	5.50	5.67	5.70	2.10	2.15
25 year	4.96	4.99	4.96	5.00	5.42	5.49	5.69	5.72	2.17	2.22
30 year	5.03	5.06	5.03	5.07	5.40	5.48	5.70	5.73	2.23	2.28

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR, D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

GOVERNMENT BOND SPREADS vs ECU

Dec 04	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.07	+0.08	+0.22	+0.04	-0.38	+0.15
Belgium	-0.08	+0.01	+0.14	+0.13	+0.06	+0.12
Finland	-0.16	+0.12	+0.22	+0.15	-0.48	-0.71
France	-0.19	-0.07	-0.08	-0.08	-0.10	-0.10
Germany	-0.22	-0.09	+0.02	-0.19	-0.15	-0.10
Ireland	-0.03	-0.11	+0.00	+0.09	+0.07	+0.44
Italy	-0.06	+0.02	+0.09	+0.13	+0.15	+0.17
Luxembourg	-0.08	+0.01	+0.14	+0.13	+0.06	+0.12
Netherlands	-0.14	-0.02	+0.06	-0.05	-0.01	-0.09
Portugal	-0.12	+0.14	+0.22	+0.18	+0.27	+0.18
Spain	-0.25	-0.03	+0.18	+0.17	+0.11	+0.13
"OUTs"						
Denmark	+0.42	+0.42	+0.38	+0.24	-0.06	+0.70
Greece	+6.35	+5.00	+4.10	+3.33	+2.60	+2.37
Sweden	+0.17	+0.26	+0.38	+0.29	+0.18	-0.05
UK	+1.61	+0.93	+0.89	+0.58	-0.04	-0.45

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

Dec 04	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	112.220	4.14	-0.02	-0.23	+0.08
France (Rep of)	04/08	5.250	AAA	109.820	3.97	-0.02	-0.28	-0.09
Italy (Rep of)	05/08	5.000	AA	106.700	4.13	-0.02	-0.34	+0.07
Portugal (Rep of)	06/08	5.375	AA-	108.646	4.25	-0.04	-0.26	+0.19
Euro Issues								
Abbey Natl Treas Srv	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gen Electric Cap Crp	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oest Kontrollbank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cred Local de France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu Issues								
Bayer Hypo & Wech Bk	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cred Foncier France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro Inv Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ABN Amro Hldg. NV	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Interactive Data/FT Information. [illegible]

EUROZONE CREDIT SPREADS vs ECU

Dec 04	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France Telecom	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Halifax	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ing Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bayer Hypo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cred Foncier	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thomson	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Generale	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank of	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Natl Bk of	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Korea De	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Argentina	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Interactive Data/FT Information. [illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
Allied Domecq	♧N	510xd	-2.5	Q25.33	1.5	6,329	2.11	2322
Belhaven (HP)		348	-3.9	15.0	1.5	182.2	10.8	2805
Burn Stewart		15½	-7.6	-	-	9.04	10.97	1516
Diageo	♧N	627½	-0.7	Q19.8	1.5	22,470	5.10	2791
Glenmorangie A	†	687½	—	14.45	2.5	98.5	13.7	3257
B	†	625	—	7.22	2.5	31.0	13.7	3258
Highland		256½	—	8.35	2.3	342.7	5.5	2880
5¼pc Cv Sb Bd		98	—	Q5¼%	-	49.0	6.1	2823
Kirin Y		643½	1.5	Q24%	1.7	6,774	25.12	1118
Matthew Clark	♣	241½	0.2	13.0	2.3	213.7	3.8	2153
Merrydown		29½	26.2	-	-	7.82	7.97	3352
Seagram C$		221¾	2.3	Q66c	-	7,400	20.8	-

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line

BREWERIES, PUBS & REST

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

BUILDING MATS. & MERCHANTS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

CHEMICALS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

CONSTRUCTION

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

CONSTRUCTION - Continued

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

DISTRIBUTORS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

DIVERSIFIED INDUSTRIALS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

ELECTRICITY

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

ENGINEERING

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

ENGINEERING - Continued

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

ENGINEERING - Continued

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

ENGINEERING, VEHICLES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

EXTRACTIVE INDUSTRIES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

FOOD PRODUCERS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

FOOD PRODUCERS - Continued

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

GAS DISTRIBUTION

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

HEALTH CARE

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

HOUSEHOLD GOODS & TEXT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

INSURANCE

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

INSURANCE - Continued

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line

INVESTMENT TRUSTS

	Notes	Price	Wk% ch'nge	Dividends paid	Mkt cap£m	Last xd	City line

INVESTMENT TRUSTS - Continued

	Notes	Price	Wk% ch'nge	Dividends paid	Mkt cap£m	Last xd	City line

INV TRUSTS SPLIT CAPITAL

	Notes	Price	Wk% ch'nge	Dividends paid	Mkt cap£m	Last xd	City line

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
Φ Figures or report awaited
♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
♣ Free annual/interim report available, see details below.
‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
# Price at time of suspension
• Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
♦ Merger bid or reorganisation in progress
§ Forecast dividend; cover based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
x Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
z Dividend includes a special payment: Cover does not apply to special payment.
F Dividend based on prospectus or other official estimates for 1998-99.
G Assumed dividend after pending scrip and/or rights issue.
H Dividend based on prospectus or other official estimates for 1999.
K Dividend based on prospectus or other official estimates for 1998
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend).
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: INVESCO Rec Tst, Do Zero Div Pf (InTr), MSW Tech (SpSv). Deletions: David Brown (Eng), Fleming Emerging Mkt Wnts (InTr), Ionica (Tele), Yorkshire Water B (Wtr), Future Integrated Telephony, South Beach (AIM).

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

هكذا من الأصل

هكذا من الأصل

FT GUIDE TO THE WEEK

Prudential Fund Managers (Jersey) Ltd

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

Aberdeen Fund Mngrs (Luxembourg) Ltd

American Phoenix Investment Portfolios

Bank Von Ernst & Cie AG

Foreign & Colonial Portfolios Fd Sicav

Framlington International Portfolios

GT Global

Mercury Asset Management - Contd.

Morgan Stanley Sicav

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Credit Suisse Asset Mgmt Funds

MFS American Funds - Contd.

Merrill Lynch Asset Management

UBS AG

OFFSHORE INSURANCES

LUXEMBOURG (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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	Selling Price	Buying Price	Yield Gross	City-Line

OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 4 / Sch)

BELGIUM/LUXEMBOURG (Dec 4 / Frs.)

CZECH REP (Dec 4 / Korona)

DENMARK (Dec 4 / Kr)

FINLAND (Dec 4 / Mkk)

FRANCE (Dec 4 / Frs.)

GERMANY (Dec 4 / Dm.)

GREECE (Dec 4 / Drachma)

IRELAND (Dec 4 / Punt)

ITALY (Dec 4 / Lira)

NETHERLANDS (Dec 4 / Fl.)

NORWAY (Dec 4 / Kroner)

POLAND (Dec 4 / Zloty)

PORTUGAL (Dec 4 / Escudo)

SPAIN (Dec 4 / Pta.)

SWEDEN (Dec 4 / Kronor)

SWITZERLAND (Dec 4 / Frs.)

TURKEY (Dec 4 / Tk Lira)

PACIFIC

JAPAN (Dec 4 / Yen)

AUSTRALIA (Dec 4 / Aust$)

HONG KONG (Dec 4 / H.K.$)

INDONESIA (Dec 4 / Rupiah)

MALAYSIA (Dec 4 / MYR)

NEW ZEALAND (Dec 4 / NZ $)

SINGAPORE (Dec 4 / S$)

SOUTH KOREA (Dec 4 / Won)

TAIWAN (Dec 4 / TW $)

THAILAND (Dec 4 / Baht)

AMERICAS

CANADA

TORONTO (Dec 4 / Can $) 4 pm close

MONTREAL (Dec 4 / Can $) 4 pm close

MEXICO (Dec 4 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Dec 4 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 4 1998 US Dollar Index	%chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	THURSDAY DECEMBER 3 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	194.10	-3.0	172.86	145.42	169.07	209.26	2.4	3.48	195.70	174.41	146.90	170.33	208.43	219.96	163.86	200.27
Austria (22)	186.47	-1.4	166.06	139.70	162.42	162.31	-8.1	2.15	187.38	166.99	140.65	163.06	162.97	253.73	166.45	191.56
Belgium (22)	381.66	50.0	339.90	285.95	332.48	325.82	39.9	2.08	382.14	340.56	286.85	332.69	325.41	388.52	250.39	258.71
Brazil (32)	147.31	-38.2	131.20	110.37	128.32	325.96	-33.5	2.78	149.22	132.98	112.01	129.87	330.21	289.34	102.68	235.53
Canada (119)	195.93	-7.8	174.49	146.79	170.68	216.67	-1.6	1.79	193.52	172.46	145.26	168.43	215.24	248.78	159.94	212.58
Denmark (34)	454.73	1.6	404.98	340.69	396.11	394.04	-5.4	1.78	457.60	407.80	343.49	398.27	396.11	537.33	420.12	431.74
Finland (26)	518.33	86.1	461.61	388.34	451.50	554.16	74.1	1.85	502.09	447.45	376.88	436.99	536.34	518.33	267.59	295.73
France (75)	311.01	30.0	276.98	233.01	270.91	274.13	21.4	2.28	309.52	275.84	232.33	269.39	272.57	345.18	225.24	236.17
Germany (55)	266.50	18.2	237.34	199.67	232.14	232.14	8.2	1.40	267.17	238.10	200.55	232.53	232.53	325.61	218.59	228.26
Greece (35)	309.62	0.0	275.74	231.97	269.70	625.43	0.0	1.39	302.87	269.91	227.35	263.60	611.27	333.20	211.47	–
Hong Kong, China (67)	308.85	-13.5	275.06	231.39	269.03	307.17	-13.5	4.25	311.08	277.19	233.47	270.70	308.32	389.07	196.64	382.25
Indonesia (26)	48.55	-28.5	43.24	36.37	42.29	224.86	0.9	1.41	48.93	43.61	36.73	42.59	227.01	93.98	19.04	90.22
Ireland (16)	493.64	22.9	439.63	369.84	430.00	469.16	18.2	2.07	495.88	441.92	372.22	431.58	469.98	560.44	387.89	403.50
Italy (53)	163.72	39.2	145.80	122.66	142.61	202.84	30.8	1.37	162.40	144.73	121.90	141.34	201.05	184.49	109.90	111.82
Japan (446)	98.90	3.8	88.07	74.09	86.14	74.09	-5.4	1.02	99.43	88.61	74.63	86.53	74.63	109.73	76.63	98.22
Mexico (29)	1075.07	-40.4	957.44	805.45	936.49	11740.69	-26.1	2.18	1059.02	943.78	794.94	921.71	11569.54	1803.07	787.15	1739.23
Netherlands (27)	473.18	15.4	421.41	354.51	412.17	407.87	7.5	2.29	468.56	417.57	351.71	407.80	403.46	582.38	391.03	412.20
New Zealand (18)	54.21	-29.1	48.28	40.62	47.22	55.22	-21.0	5.29	53.88	48.02	40.44	46.89	54.62	82.77	45.68	82.61
Norway (36)	213.42	-33.2	190.06	159.89	185.90	215.40	-32.8	2.78	214.06	190.78	160.69	186.32	216.16	357.71	181.66	327.82
Philippines (22)	82.28	3.7	73.29	61.65	71.66	180.14	1.5	0.97	82.13	73.20	61.65	71.48	158.81	106.98	42.48	84.79
Portugal (18)	248.72	0.0	221.50	186.34	216.65	282.69	0.0	1.14	250.22	222.99	187.82	217.78	293.61	299.39	194.13	–
Singapore (41)	205.53	-8.7	183.05	153.99	179.03	156.95	-10.2	2.01	205.73	183.34	154.43	179.05	155.95	264.82	102.45	253.48
South Africa (40)	181.22	-31.7	161.39	135.77	157.85	232.90	-17.5	4.00	189.74	169.09	142.42	165.14	237.85	346.20	151.55	268.69
Spain (30)	378.50	38.5	336.30	282.08	327.96	408.87	29.6	1.95	375.32	334.48	281.73	326.66	404.47	417.73	266.90	273.21
Sweden (46)	491.73	4.7	437.93	368.41	428.33	587.80	6.5	1.99	492.12	438.57	369.40	428.31	586.08	628.19	379.18	492.59
Switzerland (30)	398.27	16.9	354.69	298.39	346.92	337.95	9.7	1.26	396.79	353.61	297.84	345.34	337.01	439.48	307.73	331.98
Thailand (35)	21.16	9.7	18.85	15.86	18.43	29.57	-18.0	3.20	20.97	18.69	15.74	18.25	29.26	37.84	6.15	24.24
United Kingdom (208)	360.03	8.5	320.64	269.74	313.61	320.64	7.2	3.07	358.80	319.76	269.33	312.28	319.76	401.84	307.96	334.14
USA (520)	482.70	21.8	429.89	361.65	420.47	482.70	21.8	1.35	472.08	420.71	354.36	410.87	472.08	486.63	376.74	396.95
Americas (800)	429.22	19.2	382.25	321.57	373.88	383.95	19.7	1.37	420.01	374.31	315.28	365.58	356.21	497.03	343.40	380.47
Europe (737)	339.97	17.6	302.77	254.71	296.14	307.72	12.3	2.18	338.73	301.87	254.26	294.81	306.47	388.24	279.29	288.68
Eurobloc (346)	98.66	0.0	87.86	73.91	85.94	93.03	0.0	1.84	98.25	87.56	73.75	85.51	92.54	113.28	81.53	–
Nordic (146)	461.55	11.9	411.05	345.80	402.04	464.87	10.2	1.92	458.69	408.96	344.46	399.39	461.80	555.97	380.04	426.47
Pacific Basin (731)	106.29	0.4	94.66	79.63	92.59	92.33	-8.6	1.36	106.88	95.25	80.23	93.03	82.81	119.48	62.88	110.62
Euro-Pacific (1468)	203.37	11.6	181.12	152.37	177.15	166.82	5.8	2.00	203.19	181.08	152.52	176.85	166.84	220.19	168.00	184.90
North America (739)	463.34	20.4	412.64	347.14	403.60	484.39	20.8	1.36	453.30	403.97	340.28	394.52	454.41	489.20	367.39	385.20
Europe Ex. UK (529)	318.29	22.8	283.47	238.47	277.28	292.05	15.2	1.77	317.10	282.60	238.03	275.99	280.69	366.32	250.03	256.02
Europe Ex. Eurobloc (391)	92.51	0.0	82.39	69.31	80.58	91.14	0.0	2.55	92.22	82.19	69.23	80.26	90.89	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	94.15	0.0	83.85	70.54	82.01	89.79	0.0	1.51	93.92	83.70	70.50	81.74	89.54	109.21	75.16	–
Pacific Ex. Japan (285)	178.41	-11.0	158.89	133.66	155.41	169.80	-9.2	3.88	179.56	160.02	134.78	156.28	183.65	217.77	128.26	211.62
World Ex. Eurobloc (1962)	100.42	0.0	89.43	75.24	87.47	98.11	0.0	1.62	99.06	88.27	74.35	86.21	97.77	103.16	83.09	–
World Ex. US (1888)	202.85	8.9	180.66	151.98	176.70	171.54	4.1	2.01	202.68	180.60	152.12	176.38	171.35	221.91	165.65	188.69
World Ex. UK (2100)	268.62	18.2	255.26	214.74	249.65	255.57	13.6	1.50	282.86	252.06	212.33	246.19	252.19	298.02	234.66	248.33
World Ex. Japan (1862)	369.65	16.9	347.02	291.93	339.41	378.33	15.5	1.73	384.13	342.33	288.34	334.32	372.86	411.23	318.78	333.96
The World Index (2308)	282.97	15.4	260.91	219.49	255.19	261.66	13.0	1.66	289.41	257.92	217.24	251.89	258.47	306.56	242.08	255.61

 CONSTITUENT CHANGES DURING THE WEEK ENDING 4/12/98: Additions: Sasol Limited (South Africa (Large Cap).

Emerging markets: IFC investable indices

Dollar terms

Dec 3 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	820.52	-5.4	-26.5
Brazil	303.87	-8.1	-37.0
Chile	465.19	-2.8	-27.6
Colombia[1]	441.32	-0.6	-46.5
Mexico	451.42	-2.9	-42.7
Peru[2]	145.54	-3.9	-34.3
Venezuela[3]	378.09	-0.6	-58.7
East Asia			
China[4]	27.68	-0.8	-50.0
India[7]	59.05	-0.3	-29.2
Indonesia[5]	24.91	-2.0	-26.0
Korea[3]	39.32	+3.0	+63.6
Malaysia	85.26	-0.5	-6.5
Pakistan[8]	103.32	-3.7	-58.4
Philippines	116.75	-2.9	+2.7
Sri Lanka[10]	77.07		-33.8
Taiwan, China[6]	127.29	-0.2	-9.8
Thailand	59.75	-1.6	+27.0
Europe			
Czech Rep	46.86	+0.6	-14.3
Greece	543.12	-3.6	+67.6
Hungary[12]	241.61	-2.5	-23.2
Poland[12]	470.25	-0.3	-21.2
Portugal	281.66	+0.6	+33.5
Russia	25.70	-6.7	-82.7
Slovakia	40.11	-3.8	-59.5
Turkey[14]	152.93	-0.2	-51.0
Mideast/Africa			
Egypt	63.52	+0.1	-31.9
Israel	100.61	-0.4	-17.2
Jordan	210.61		+0.2
Morocco	167.97	-0.8	+28.9
S Africa[15]	126.76	-3.5	-29.5
Zimbabwe[15]	97.40	+0.8	-61.3
Regions			
Composite	182.37	-2.5	-25.9
Latin America	426.09	-5.0	-36.8
Asia	99.99	+0.2	-7.2
EMEA	110.69	-2.1	-26.0
Europe	140.30	-1.6	-25.6
Eastn Europe	53.65	-2.5	-61.8
ME & Africa	53.91	-2.6	-24.6
Comp + Malay	184.86	-2.4	-24.8
Asia + Malay	101.84		-5.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

Prices supplied by Extel, part of FT Information

NOTES - Prices on this page are as quoted on the individual exchanges and are usually last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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4 pm close December 4

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9016.14	8879.68	9064.54	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	107.10	107.12	106.85	107.12 (3/12)	104.42 (11/5)	107.12 (3/12/98)	54.99 (1/10/81)
Transport	3052.25	3039.15	3101.95	3686.02 (16/4)	2345.00 (9/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	308.94	303.10	304.15	320.51 (8/10)	262.66 (8/1)	320.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high (e) (9112.88) Low (e) (8829.76) (Theoretical)
Day's high 9026.15 (9062.57) Low 8879.88 (8871.45) (Actual)

Standard and Poors	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1176.59	1150.14	1171.25	1192.29 (27/11)	927.69 (9/1)	1192.29 (27/11/98)	4.40 (1/6/32)
Industrials¶	1403.93	1373.58	1398.15	1421.23 (27/11)	1077.40 (9/1)	1421.23 (27/11/98)	3.52 (30/6/32)
Financial¶	128.91	125.13	128.05	147.69 (14/7)	95.80 (8/10)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	573.49	563.45	571.79	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.84 (25/4/42)
Amex Comp	680.39	693.53	659.94	769.87 (22/4)	583.75 (8/10)	769.87 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	2003.16	1954.33	1995.21	2016.44 (27/11)	1419.12 (8/10)	2016.44 (27/11/98)	54.87 (9/10/74)
Russell 2000	398.37	395.00	397.49	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/83)

■ RATIOS

	Nov 27	Nov 20	Nov 13	Year ago
Dow Jones Ind. Div. Yield	1.63	1.66	1.69	1.74
	Dec 2	Nov 25	Nov 18	Year ago
S & P Ind. Div. yield	1.22	na	1.25	1.46
S & P Ind. P/E ratio	35.71	na	33.53	28.33

US DATA

■ MARKET ACTIVITY

[illegible]

■ NYSE TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

■ NASDAQ TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

[illegible]

JAPAN

[illegible]

■ TOKYO TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

GERMANY

[illegible]

■ FRANKFURT TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

FRANCE

[illegible]

■ PARIS TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

UK

[illegible]

■ LONDON TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	1172.00	1182.00	+20.00	1184.00	1150.80	140,535	362,782
Mar	1175.00	1194.00	+30.50	1195.00	1174.60	25,745	71,582
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	14640.0	14640.0	-80.0	14670.0	14548.0	20,249	136,402
Mar	14570.0	14600.0	-30.0	14600.0	14500.0	5,873	83,257

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	3665.0	3740.0	+18.0	3785.0	3650.0	87,967	190,802
Jan	3725.0	3748.0	+18.0	3725.0	3725.0	3	4,270
■ DAX							
Dec	4762.0	4810.0	-12.0	4863.0	4690.0	24,588	78,832
Mar	4807.0	4848.0	-4.0	4892.0	4732.0	1,003	8,454

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	668.00	683.50	+2.50	684.50	668.00	37,643	208,791
Jan	677.00	685.00	+0.25	685.00	677.00	129	7,441
■ SOFFEX							
Dec	6750.0	6810.0	-4.0	6869.0	6665.0	31,917	136,991
Mar	6750.0	6841.0	–	6890.0	6736.0	5,604	11,084

WORLD MARKETS AT A GLANCE

Country	Index	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Yield	P/E
Argentina	General	17849.96	17812.46	18650.69	23485.47 23/3	12368.14 10/9	3.72	11.8

Closed lower in spite of a morning rebound from its Thursday plummet. Profit-taking and Brazil were blamed.

Country	Index	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Yield	P/E
Australia	All Ordinaries	2730.7	2729.3	2761.0	2881.40 16/4	2458.28 1/9	3.45	20.8
	All Mining	603.6	597.5	608.9	713.19 23/4	498.88 31/8		

All Ords eased early to 2,694 then bounced to 2,742 intraday high. Banks, Telestra and resources sector outperformed.

Country	Index	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Yield	P/E
Hungary	Bux.	5665.62	5465.43	5584.97	9016.36 23/4	3775.82 21/9	na	na

Stocks clawed back some of week's earlier losses as investors covered short positions.

Country	Index	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Yield	P/E
India	BSE Sens.	2849.82	2804.48	2815.59	4280.96 21/4	2764.16 20/10		
	Cdil 500	567.73	562.18	564.12	815.62 21/4	567.65 20/10	na	na

Strong foreign demand for ITC and local short-covering enabled market to close week firmly.

Country	Index	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	4682.93	4664.55	4630.46	6176.89 22/4	3598.08 2/10	2.14	25.8
	PSI 20	10696.10	10713.04	10626.12	14292.99 22/4	8114.51 2/10		

Motorway operator Brisa strong performer in response to key rate cuts and expectations of strong 1998 results.

Country	Index	Dec 4	Dec 3	Dec 2	1998 High	1998 Low	Yield	P/E
Russia	RTS	64.00	65.38	68.67	411.81 5/1	38.53 5/10	na	na

Shares edged down in light trade, lacking direction.

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close December 4

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

4 pm close December 4

[illegible]

EASDAQ

[illegible]

FT GUIDE TO THE WEEK

MONDAY 7

Economic Gulf

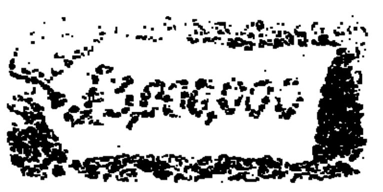
Plunging oil revenues may chill the atmosphere in Abu Dhabi at the annual summit of the Gulf Co-operation Council, the economic and security alliance which comprises Bahrain, Kuwait, Oman, Qatar, Saudia Arabia and the United Arab Emirates. Over-dependence on a single commodity and the expectations of predominantly young populations for modern education, employment and political involvement pose problems the region's ageing leaders are unlikely to find answers to at their three-day meeting. Kofi Annan, the United Nations secretary-general, is expected to attend one day of the meeting, as is Nelson Madela, South African president.

German jobs talks

German round-table talks on employment are due to start in Bonn. Chancellor Gerhard Schröder has made forging a so-called "alliance for jobs" a priority and sees it as a mechanism for steering government policy, union demands and corporate interests towards the common goal of reducing unemployment. Hardest to convince will be the employers, who see the tax policies of the Social Democrat/Green coalition as a direct attack on investment and job creation.

Big impression

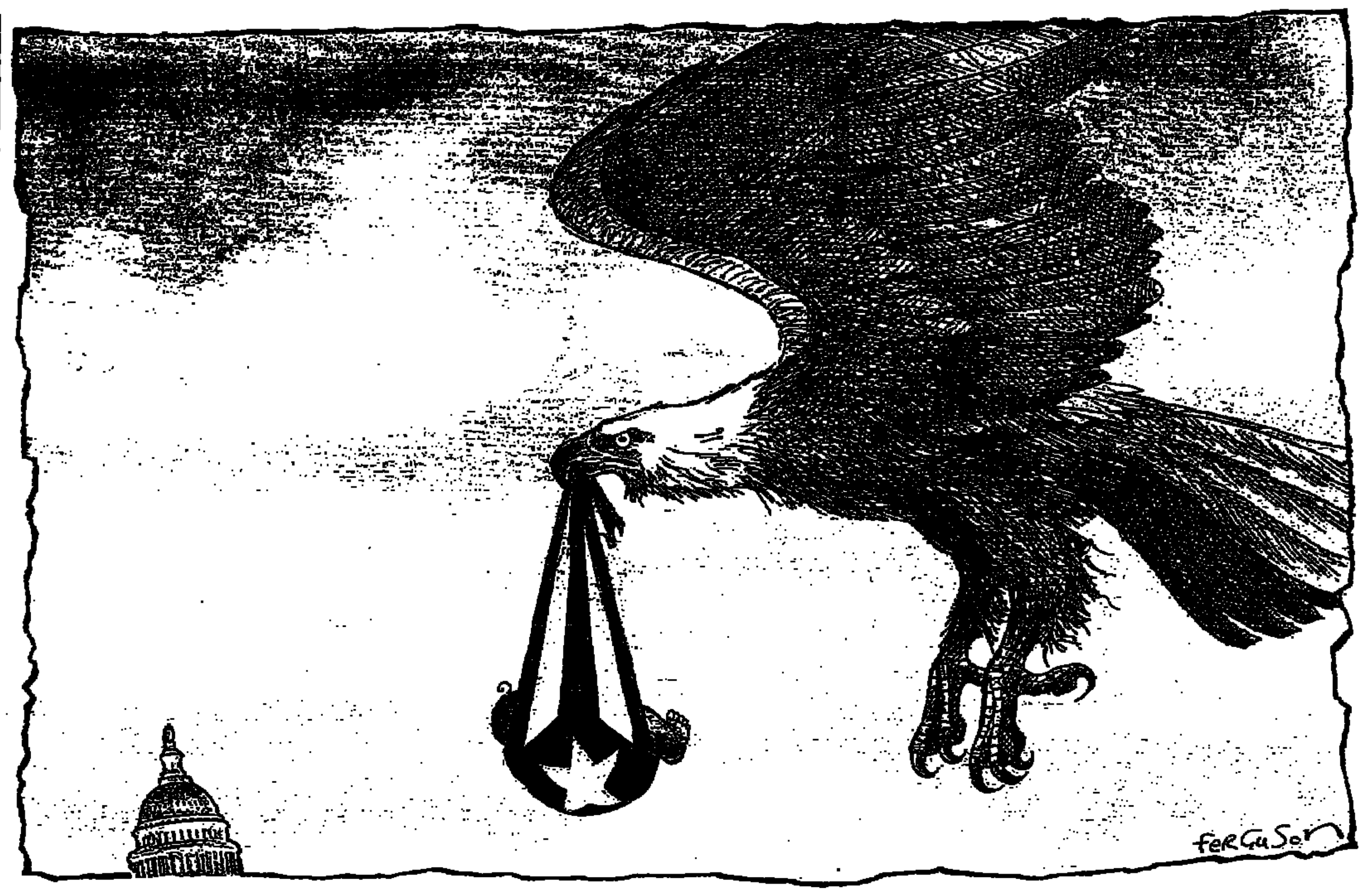
Sotheby's, the London auctioneer, begins a week of impressionist, modern and contemporary art sales



with Monet's "Le Déjeuner sous La Tente" and Gaugin's "Le Jouer de Guitare," expected to fetch £2m - £3m.

Ministerial view

European Union foreign ministers meet in Brussels to prepare the way for Friday's summit of EU leaders in Vienna, and deal with a heavy agenda of other issues. Looking towards Vienna, they will try to form a common view on the European Commission's report on the progress of candidate countries for EU membership. They will also review preparations for the entry into force of last year's Amsterdam treaty, plans for food aid to Russia, the Middle East peace process, and the situation in Kosovo. EU development commissioner João de Deus Pinheiro will report on the progress of negotiations with South Africa on a free trade agreement. Relations with the US – ahead of the biannual EU-US summit in Washington on December 18 – are also on the agenda and could provoke a discussion on the escalating dispute over the EU's banana import regime.



A vote in favour of US statehood by Puerto Ricans on Sunday could force Washington legislators to approve a binding referendum next year

FT Surveys

Hungary; World Pulp and Paper; Spain's Ebro Valley.

Holidays

Venezuela, Ivory Coast, Bangladesh, Thailand.

TUESDAY 8

Latin lessons

Trade prospects for the Caribbean and Central America will be reviewed over four days in Miami by the region's heads of government, bankers, economists and business leaders. Several countries are reporting an adverse effect from Nafta, and feel they will be caught in a north-south squeeze by the emerging force of Mercosur. The conference will also discuss how the region can deal with the fallout from the Asian and Russian financial crises. The European Union's preferential banana market, which favours Caribbean exporters, and which has been attacked by the US and some Latin American producers, will cause animated exchanges.

Children's story

The United Nations Children's Fund (Unicef) publishes its annual report on the state of the world's children which focuses on education – or the lack of it – in developing countries. Unicef argues that lack of an education, which particularly affects girls, not only makes it harder to earn a decent livelihood but also reduces the ability to understand and tolerate others. This has profound repercussions for society as a whole, the report says.

Balkans discussion

North Atlantic Treaty Organisation foreign ministers discuss the Balkans and draft a new strategic concept at the semi-annual ministerial meeting of the North Atlantic Council in Brussels. Cyprus and Kosovo will also be on the agenda and separate meetings will be held with the foreign ministers of Russia and central and east European partner states (to December 9).

FT Surveys

Greece; Japanese Industry.

Holidays

Austria, Italy, Malta, Portugal, Spain, Uzbekistan, Argentina, Chile, Colombia, Peru.

WEDNESDAY 9

Search for the truth

Switzerland is hosting a three-day international seminar in Geneva on the role of truth commissions in achieving justice and reconciliation. Since 1974 19 countries, including South Africa, Argentina, Bolivia, Chile, Guatemala and El Salvador have established truth commissions following a period of dictatorship. In general, they grant amnesty to those acknowledging their crimes, in return for information that they hope will help the victims and society come to terms with the past.

Southern summit

Mercosur, the southern zone common market, holds a summit meeting in Rio de Janiero. The group, which includes Argentina, Brazil, Paraguay and Uruguay, is expected to focus its discussions on recent disagreements between Brazil and Argentina over import licenses and tariffs.

THURSDAY 10

Prize party

Northern Ireland politicians John Hume and David Trimble receive the 1998 Nobel Peace Prize at an award ceremony in Oslo. The prizes for

physics, chemistry, medicine, literature and economics are awarded on the same day in Stockholm.

Rights remembered

The 50th anniversary of the universal declaration of human rights is being marked by a special session of the United Nations general assembly in New York and by activities around the world. These include the posting of the universal declaration on the worldwide web in 250 languages. The declaration was adopted in Paris half a century ago by the newly created UN.

Holiday

Thailand.

FRIDAY 11

European summit

European leaders hope to initiate serious negotiations on the so-called Agenda 2000 plans for reforming the EU's budget and agricultural and structural funds at their two-day summit beginning in Vienna today. Gerhard Schröder, Germany's chancellor, has called for a sharp reduction in Bonn's budget contributions and agreement on the Agenda by March. The recent election of his left-of-centre government will give a new impulse to co-ordination of policies to combat unemployment. Leaders are also expected to discuss tax co-ordination and law and order, without coming to any firm conclusions.

UN countdown

With little more than a year to sort out the year 2000 effect on computers, heads of national programmes for tackling the problem meet for the first time at the United Nations in New York. The meeting will hear expert reports on the dangers for banking and finance, telecommunications, electricity and nuclear power and aviation and shipping.

CIS summit

Depending largely on the state of health of Boris Yeltsin, the Russian president, a summit meeting of the Commonwealth of Independent States is scheduled to be held. Boris Berezovskiy, the CIS executive secretary, has promised to unveil a blueprint for "reversing seven years of disintegration".

FT Surveys

Austria; Private Finance Initiative.

Holiday

Burkina Faso.

SATURDAY 12

Clinton goes to Middle East

Bill Clinton, the US president, travels to the Middle East for meetings with Benyamin Netanyahu, the Israeli prime minister, and Yassir Arafat, the Palestinian leader. Clinton is expected to attend a Palestinian National Council meeting.

Holiday

Mexico, Russia.

SUNDAY 13

Puerto Rica poll

Puerto Ricans vote in a referendum on their political ties to the US. The island is a "commonwealth" of the US, and voters are being asked to choose between making this link stronger, becoming a state of the US, or being politically independent. Recent polls suggest that the tendency for statehood will prevail, but will be supported by fewer than half the voters. The vote will be non-binding on the US Congress, and Pedro Rossello, Puerto Rico's governor, hopes a good showing by supporters of statehood will force reluctant legislators in Washington to approve a binding referendum next year.

Holiday

Malta.

Compiled by Roger Beale
Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Monday: US consumer credit growth is thought to have slowed into October. Capacity utilisation in Canada is forecast to have eased slightly in the third quarter. Annual growth in German industrial production probably slowed in October. UK factory output probably fell again in October.
Tuesday: German unemployment is thought to have fallen less sharply in November than October.
Wednesday: The New Zealand government publishes its latest economic and fiscal update. Consumer confidence in France is thought to have edged lower in November.
Thursday: Initial US jobless claims are forecast to have remained low in the week ending December 5, thanks to strong retail demand. Japanese machinery orders are expected to show a big fall for October. The Bank of England's monetary policy committee is expected to cut UK interest rates.
Friday: Monthly growth in US producer prices is expected to have remained weak in November, with retail sales growth in the US also slowing.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Oct industrial production*	-0.2%	-0.6%		US	M2 week ended Nov 30	$5bn	-$3.5bn
Dec 7		Oct industrial production**	-0.1%	0.6%		US	M3 week ended Nov 30	$12.6bn	$2bn
		Oct manufacturing output*	-0.3%	-0.4%		US	Nov monthly M1	$7.6bn	$6.4bn
		Oct manufacturing output**	-0.7%	0.1%		US	Nov monthly M2	$35.6bn	$44.2bn
	US	Oct consumer credit	$5.5bn	$8.4bn		US	Nov monthly M3	$68.1bn	$65.4bn
	Germany	Oct industrial production pan Ger*	0.3%	-3.2%	Fri	Germany	Oct trade balance	DM10.0bn	DM11.7bn
	Germany	Oct manufacturing output pan Ger*	0.3%	-3.5%	Dec 11	Germany	Oct current account	-DM3.3bn	-DM1.9bn
	Germany	Oct industrial production west*		-3.2%		US	Nov retail sales	-0.1%	1.0%
	Germany	Oct industrial production east*		-2.7%		US	Nov retail sales ex-automobiles	0.2%	0.5%
Tues	Germany	Nov unemployment† pan Germany	-30,000	-43,000		US	Nov producer price index	unch	0.2%
Dec 8	Germany	Nov unemployment† west	-15,000	-20,000		US	Nov PPI ex-food and energy	unch	0.1%
	Germany	Nov unemployment† east	-15,000	-23,000		US	Dec Michigan sentiment prel**	103.0	102.7
	Germany	Sep employment† west	15,000	17,000		US	Nov bank credit		N/A
	Germany	Nov vacancies† west		6,000		US	Nov C&I loans		N/A
	Germany	Nov short time west		12,000	During the week...				
	US	BTM-Schroders Dec 5		0.1%		Germany	Nov final cost of living* west		-0.2%
	Japan	Nov Bank of Japan data		N/A		Germany	Nov final cost of living** west		0.7%
Dec 9	US	Q3 current account		-$56.5bn		Germany	Nov cost of living* pan Germany	0.0%	-0.2%
Thur	Japan	Oct machinery orders ex elec/ships**	19.5%	-14.5%		Germany	Nov cost of living** pan Germany	0.7%	0.7%
Dec 10	Japan	Oct machinery orders ex elec/ships*	-5.5%	9.2%		Germany	Oct retail sales, real**	-1.5%	-0.2%
	US	Initial claims Dec 5	315,000	313,000		Germany	Oct retail sales, real†*	1.0%	-2.0%
	US	State benefits Nov 28		2,307,000		Japan	Oct current account (IMF)	Y1,540bn	Y1,100bn
	US	Oct wholesale inventories		1.2%		Japan	Oct trade balance (IMF)		Y1,270bn
	US	Oct wholesale sales		1.1%		Japan	Oct foreign bond investment		Y1,000bn
	US	M1 week ended Nov 30	$5.3bn	$2.5bn					

*month on month, **year on year, † seasonally adjusted

Statistics, courtesy Standard & Poor's MMS.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 06.12.98 / Final Prices for Trading on 06.11.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	9.85	11.49	11.48	1.39
0100	17.00	14.00	13.99	1.39
0130	23.34	14.00	13.99	1.39
0200	23.34	14.00	13.99	1.39
0230	17.00	11.32	11.31	1.39
0300	15.49	11.32	11.31	1.39
0330	15.49	9.36	9.36	0.00
0400	10.95	9.35	9.35	0.00
0430	15.49	9.33	9.33	0.00
0500	10.95	9.00	9.00	0.00
0530	10.95	9.33	9.33	0.00
0600	9.80	9.30	9.30	0.00
0630	9.50	9.30	9.30	0.00
0700	9.50	9.33	9.33	0.00
0730	11.22	9.33	9.33	0.00
0800	9.60	9.00	9.00	0.00
0830	11.22	9.00	9.00	0.00
0900	14.17	9.33	9.33	0.00
0930	14.17	9.35	9.35	0.00
1000	15.63	9.37	9.37	0.00
1030	15.63	11.67	11.66	1.39
1100	15.93	12.28	12.27	1.39
1130	17.38	11.67	11.66	1.39
1200	18.25	17.00	16.99	1.39
1230	18.25	20.03	20.02	1.39
1300	18.25	20.03	20.02	1.39
1330	18.25	12.28	12.27	1.39
1400	9.79	12.28	12.27	1.39
1430	9.76	9.40	9.40	0.00
1500	9.65	11.87	11.86	1.39
1530	9.65	12.28	12.27	1.39
1600	9.79	12.28	12.27	1.39
1630	18.25	13.21	13.21	1.39
1700	18.25	21.88	21.87	1.39
1730	24.56	31.61	31.60	1.39
1800	24.56	31.61	31.60	1.39
1830	20.56	31.61	31.60	1.39
1900	20.54	21.88	21.87	1.39
1930	19.00	21.88	21.87	1.39
2000	19.00	18.42	18.42	1.39
2030	18.59	20.03	20.02	1.39
2100	18.59	16.21	16.21	1.39
2130	17.38	12.28	12.27	1.39
2200	9.70	11.67	11.66	1.39
2230	9.85	13.21	13.21	1.39
2300	15.93	16.21	16.21	1.39
2330	15.93	16.21	16.21	1.39
2400	9.65	11.20	11.20	1.39

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of this system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8.30am and 5.15pm Monday to Friday.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 07.12.98 / Final Prices for Trading on 07.11.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	9.76	11.14	11.25	0.98
0100	15.93	11.20	11.32	0.98
0130	17.00	11.20	11.32	0.98
0200	17.00	11.20	11.32	0.98
0230	17.00	11.20	11.32	0.98
0300	17.00	11.20	11.32	0.98
0330	17.00	11.20	11.32	0.98
0400	15.93	11.20	11.32	0.98
0430	15.93	9.36	9.36	0.00
0500	15.93	9.33	9.33	0.00
0530	20.00	9.33	9.33	0.00
0600	15.75	9.35	9.35	0.00
0630	14.99	9.36	9.36	0.00
0700	15.75	14.44	14.56	0.98
0730	35.42	14.44	14.56	0.98
0800	35.55	15.71	15.83	0.98
0830	35.70	16.79	16.90	0.98
0900	36.01	34.86	34.98	0.98
0930	68.02	32.56	32.68	0.98
1000	68.39	70.02	70.14	0.98
1030	37.22	70.02	70.14	0.98
1100	33.81	29.89	30.01	0.98
1130	34.74	32.56	32.68	0.98
1200	52.12	32.56	32.68	0.98
1230	51.90	32.56	32.68	0.98
1300	34.83	32.46	32.58	0.98
1330	34.35	32.46	32.58	0.98
1400	34.66	32.46	32.58	0.98
1430	35.07	32.46	32.58	0.98
1500	36.72	32.46	32.58	0.98
1530	40.84	32.46	32.58	0.98
1600	81.52	32.50	32.63	0.98
1630	154.21	34.36	35.95	0.98
1700	226.60	69.81	75.33	0.98
1730	231.18	108.19	114.46	0.98
1800	167.23	106.16	111.84	0.98
1830	82.83	65.61	68.29	0.98
1900	53.13	41.28	42.05	0.98
1930	37.30	39.74	40.05	0.98
2000	35.34	39.29	39.45	0.98
2030	33.89	36.18	36.30	0.98
2100	29.98	31.52	31.63	0.98
2130	87.02	31.52	31.63	0.98
2200	87.01	16.91	17.03	0.98
2230	31.10	15.20	15.32	0.98
2300	15.75	14.44	14.56	0.98
2330	15.70	14.44	14.56	0.98
2400	15.70	9.33	9.33	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of this system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8.30am and 5.15pm Monday to Friday.
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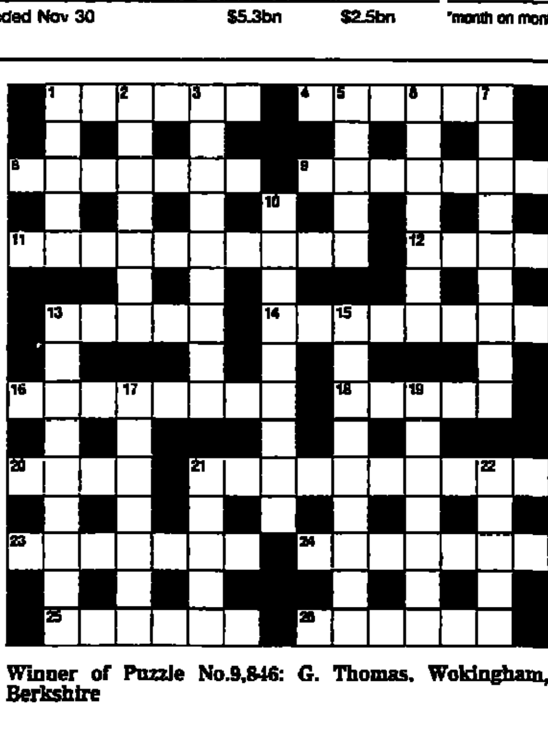
MONDAY PRIZE CROSSWORD
No.9,858 Set by GRIFFIN

ACROSS

1, 4 Forgetful sailor posted object to journalist (6-6)
8 English volume containing very good summary (7)
9 AA motel is wrong colour (7)
11 Wrapping stringed instrument in sheet is hard! (10)
12 Crowd had food after midnight (4)
13 About a hundred in cold air collapsed (5)
14 Needing a 2p to ring and locate fitting (8)
16 Cruelty of husband taking silver – really heartless! (8)
18 Inspire doctor and union leader to join in, that is (5)
20 In addition a very big pupil appears backwards (4)
21 Brought down finished cast (10)
23 Use lint when renovating tool (7)
24 Need ruler back, and 24 sheets of paper (7)
25, 26 Bank holiday is secure here (6,6)

DOWN

1, 13 Sweet woman's first gift to a Bronte (5,9)
2 Colonist hiding in dog pound (7)
3 Call on Penny, slow to provide a form of identification (9)
5 Angry, one redhead scoffed (5)
6 Angry, raised years taken to get compensation (7)
7, 22 Fast asleep, but we told her dad to move! (4,2,3,5)
10 Having uneven layers in place immobilised (9)
13 See 1 down
15 Hollow bust Neil spots (9)
17 In one second spring overflows (7)
19 Triangle famous for bare mud wrestling? (7)
21 A green ball? I've about fifty! (5)
22 See 7



Winner of Puzzle No.9,846: G. Thomas, Wokingham, Berkshire

A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday December 17, marked Monday Crossword 9,858 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 21. Please allow 28 days for delivery of prizes.

Name..

Address...

Solution 9,846

L	O	B	B	I	E	D		A	L	L	E	G	R	O
O		O		D		E		S		U		R		U
C	A	N	O	E		L	O	S	E	C	O	U	N	T
K		E		A		I		E		R		F		W
J	A	C	K	S	P	R	A	T		A	L	F	I	E
A		H				I				T				A
W	E	I	R	D		O	U	T	F	I	T	T	E	R
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E				G				T				L		U
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D		O		R		U		A		O		T		G
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A		N		U		E		C		R		L		O
N	U	D	I	S	T	S		H	E	A	R	K	E	N

JOTTER PAD

FINANCIAL TIMES SURVEY http://www.FT.com

WORLD PULP AND PAPER

MONDAY DECEMBER 7 1998 Annual review

A compelling case on paper

In such a soft market, the arguments for further consolidation are persuasive, says Greg McIvor

It has been a year of rare drama in the world pulp and paper industry. Confronted *by weak pulp prices, chronic* overcapacity and disruption to buying patterns caused by the Asia crisis, leading producers have flung themselves into a feverish round of consolidation.

An unprecedented string of deals, many with a cross-border or pan-continental dimension, has fuelled hopes *that the long-fragmented* sector is finally casting off *its insularity* and gearing up to internationalise.

*For years, the forest prod*ucts industry has spectated from the sidelines as others have gone global. Consolidation, when it has happened, has generally taken the *form* of domestic marriages. Transactions have all too often been knee-jerk responses to the industry's boom and bust cycle rather than offensive moves into new territory.

That now appears to be changing. Faced by mature domestic markets, the big North American and Scandinavian groups have little option but to look beyond *their home turf for growth* opportunities.

"The globalisation of our industry is becoming more *obvious every day," says* Richard Olson, chairman and chief executive of Champion, on the US company's website. "Our [activities] cannot be limited by geographic boundaries."

Such sentiment is underpinned by a rapid trend towards specialisation, whereby producers are slimming their product portfolios to attain greater scale in a handful of chosen paper grades.

*Nowhere is this phenome*non more evident than in *newsprint*, where a *flurry of* big, cross-border acquisitions has taken place this year as suppliers like Canada's Abitibi-Consolidated and Bowater of the US jostle for hegemony in a fiercely competitive market.

Elsewhere, companies are taking an ever-more international view of what constitutes their home market as they contemplate ways to *bolster their critical mass.* Deals such as the acquisition by Ireland's Jefferson Smurfit of Stone Container, the US packaging group, and Abitibi's purchase with Norske Skog of a two-thirds stake in Hansol of South Korea exemplify the quest for geographical reach.

Others are following. The soon-to-be-completed merger of Sweden's Stora with Enso of Finland will create a new industry behemoth, surpassing International Paper as the world's biggest paper and board group. According to industry insiders, the *tie-up has galvanised rivals* and is likely to stimulate *fresh consolidation* in 1999 as competitors strive to avoid being sidelined.

The stakes are high. Doug Whitehead, president of Fletcher Challenge Canada, believes that companies that fail to jump on the consolidation bandwagon are in danger of "becoming stuck in the middle".

"Either you are big and global and wedded to a particular grade or you are small and fast-moving with certain niches close to home. There is no middle ground," he *says.*

The message is that aver*age-sized companies which* produce a broad palette of grades must specialise and find partners or risk being taken over.

In an industry encumbered by overcapacity and susceptible to sudden price swings, under-performers can quickly become vulnerable to corporate predators – as a number of Asian producers discovered to their *cost this year.*

Before the financial crisis that engulfed the region last year, low-cost Asian papermakers were emerging as a potent threat to established western companies. Backed by surging economic growth rates, producers there invested billions of dollars in new plants and machinery while forging marketing alliances through which to sell their products into Europe and North America.

Those ambitions have been spectacularly unseated by the *crisis.* Shrinking demand and currency deval*uations have left many* Asian producers struggling to service massive debts, forcing them to cancel planned capacity expansion and to ease debt burdens by offloading assets.

Western paper companies have been quick to take advantage. They have piled into the region in search of equity stakes at bargain basement prices.

Notwithstanding Asia's present difficulties, the fundamentals of its paper industry – ready access to fast-growing, cheap fibre – remain in place. Assuming a *return to some* kind of economic normality, rapid *growth in paper and board* demand should enable Asia to *overtake* North America as the world's largest market within a few years.

For domestic and overseas companies alike, the potential is enormous. Per capita paper consumption in China was 27kg in 1997, compared with about 330kg in the US. Even in the most developed Asia-Pacific economies, such as South Korea, consumption is less than half that amount.

Stockpiled supplies: as demand for paper products stagnates, overcapacity is driving prices down

Montage: Gary Cummins

Rainer Häggblom, managing director of Jaakko Pöyry Consulting in Helsinki, says: *"If you have global ambitions,* Asia is going to be the world's largest paper *market* and you have to be there sooner or later."

Nevertheless, some analysts question whether the hell-for-leather push by western interests is premature. "Strategically it is obviously right to go in there. It is just a question of timing," says Nicholas Spoliar, forestry specialist at Panmure Gordon in London.

He argues that investors who bide their time could pick up assets at lower prices as the crisis may not have bottomed. *"The whole* Asia experience of the past *year has been extremely* bruising. There may be quite a lot of woe and angst yet to come there, before things get better."

While the turmoil in Asia has created opportunities for foreign investors, the overall effect on the global paper market has been negative. In Europe, suppliers have seen their profits cut by an inflow of paper and board from US and Canadian producers originally intended for Asia.

In turn, North American groups have been hit by an influx of cheap imports as Asian groups have shifted *supplies away from their* domestic markets – a trend *exacerbated by the new*found strength of the US dollar.

Such distortions in demand and supply are an irritant to the industry as it battles to reduce the high inventory levels that have undermined pulp prices this year. Prices of NSBK pulp have tumbled from \$550 a tonne to \$460 a tonne since mid-year due to over-production and soft demand.

Producers have arguably shown more discipline than ever before in taking production downtime to reduce stocks. However, willingness to implement curbs remains patchy and needs to be better co-ordinated to provide long-lasting support to pulp prices.

With the sector's stock market ratings languishing at a near-historic low, the capacity overhang constitutes *a serious headache for* senior executives. Pete Correll, chairman and chief executive of Georgia-Pacific, gloomily suggests the US paper industry is in danger of "sinking like the Titanic".

"There are too many facilities and too many mills," he says. Producers will struggle to survive unless they improve *their marketing and* increase focus on customers.

Mr Correll's anxiety can be seen against the backdrop of a 17 per cent fall in third-quarter profits for US paper and forest product companies. Operating margins averaged a meagre 2.5 per cent as several well known names, such as Bowater and Louisiana-Pacific, reported losses.

Companies are already striving to remove capacity from the market permanently as part of efforts to stabilise prices. Some have launched rationalisation programmes. All know that consolidation is unavoidable.

Bowater, for instance, bought Avenor, the Canadian newsprint producer, this year to become the world's second largest supplier of the grade behind *Abitibi. And* when International Paper last month *joined the M&A trail* by buying US rival Union Camp it *sent pulp and paper stocks* soaring.

Even after this year's splurge of deals, though, the top 10 paper groups still account for a mere quarter of world output. The five leading newsprint producers control barely 26 per cent of the global market, while the five biggest market pulp suppliers have a combined 19 per cent share.

The case for further consolidation is irresistible.

GLOBALISATION by Greg McIvor

North moves south, and west moves east

The traditionally stong paper industries of Scandinavia and North America are being forced to expand

Like gold-diggers heading for the Klondike, leading forestry companies have been almost falling over each other in their rush to expand into new foreign markets.

Sector analysts have preached the gospel of international consolidation for years, but only in the past 18 months or so have many producers begun to recite the globalisation mantra with conviction.

A dizzying round of deals has been seen during the past year as western companies have consolidated at home while seeking to establish footholds beyond their traditional markets.

Without question the most seismic tie-up was the multi-billion dollar merger of Sweden's Stora with Finland's Enso to create the world's largest paper and board supplier.

The deal, announced in June and given the go-ahead last month by the European Commission, set a new tone for an industry that remains deeply fragmented compared with many other sectors.

According to Jukka Härmälä, chief executive-designate of Stora Enso, the tie-up is "a logical step" towards fulfilling both companies' ambition to be among the world's biggest producers.

Together, Stora and Enso will still control less than 4 per cent of world capacity: further consolidation is inevitable.

Behind such comments lie several trends. First, the mature state of markets such as North America, Europe and Japan is forcing producers there to explore opportunities in developing regions such as Asia and Latin America.

Per capita paper consumption in China, for example, is predicted to expand by almost 50 per cent by 2010. In North America, forecast growth is 11 per cent and in western Europe 28 per cent.

Second, consolidation is being spurred by a trend towards specialisation. Increasingly, the largest companies are focusing their activities on a narrower range of products.

Where once it was normal for producers to supply everything from timber to pulp and paper to packaging board, many companies are now restricting their activities to fewer segments.

Aarre Metsävirta, a senior executive at Finland's Metsä-Serla, says: "Companies want to concentrate on certain areas and be strong there. Too many companies are in a position where their portfolio is too wide to protect their market share."

Third, companies in industrialised markets appear suddenly vulnerable to foreign competition in their once-cosseted home markets.

Upstart rivals, based chiefly in Asia, have in recent years started exporting cheap wood fibre and paper products into northern hemisphere markets. Backed by brand-new, ultra-modern factories, Asian and Latin American groups are now serious challengers to North American and Scandinavian groups.

"This industry is moving from north to south and from west to east," says Peter Massey, head of wood products at the Commonwealth Development Corporation in the UK.

Furthermore, the economic crisis in Asia has made assets available to western groups at affordable prices because local companies have been forced to sell in order to reduce crippling debt burdens.

In Asia alone, a legion of big transactions has been announced this year. Among them was the purchase by Fletcher Challenge Canada of Trust International Paper, the Philippines' largest newsprint producer, while Oji Paper of Japan and Enso purchased stakes in Thailand's Advance Agro.

In newsprint, Abitibi-Consolidated of Canada and Norway's Norske Skog launched a $1.4bn joint venture with Hansol Paper of South Korea, to be known as Papco.

Meanwhile, US group Bowater bought most of Korea's Halla Pulp and Paper, and Stora took a 60 per cent stake in Suzhou Papyrus, a Chinese coated fine paper supplier.

The activity does not end there. North America, long criticised by analysts for failing to consolidate, finally appears to have grasped the nettle.

Bowater this year took over Canada's Avenor to create the world's second largest newsprint supplier and International Paper, dislodged by Stora Enso as the world's biggest pulp and paper group, last month paid $6.6bn in shares to acquire Union Camp, one of its US rivals.

There are also signs that the long-standing reluctance of European and North American groups to enter each other's home markets may be easing. The merger of Irish group Jefferson Smurfit's US operations with Stone Container of the US this year has been hailed as a landmark deal and could serve as a blueprint for others.

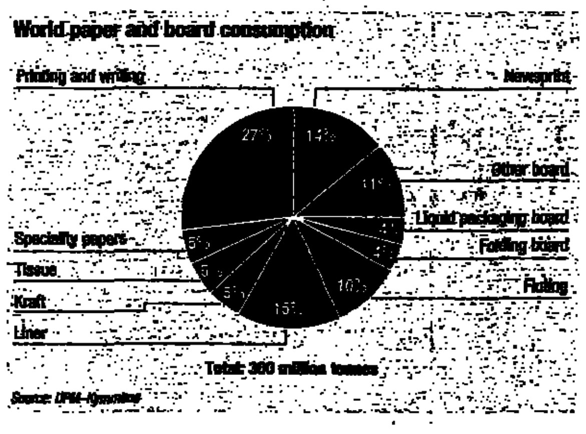
Finland's UPM-Kymmene, which last year purchased US magazine papermaker Blandin from Fletcher Challenge Canada, is known to nurture ambitions to bolster its presence in North America, where it already has substantial export sales.

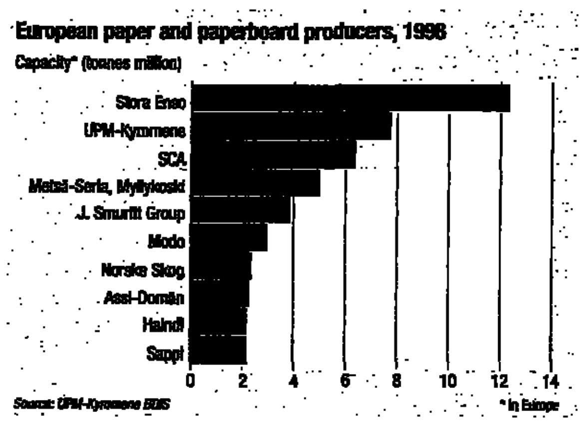
Doug Whitehead, chairman and chief executive of Fletcher Challenge Canada, says the size and affluence of the North American market have made paper companies there less inclined to expand internationally. But increased competition from overseas groups and the pursuit of economies of scale are forcing Canadian and US companies to think globally.

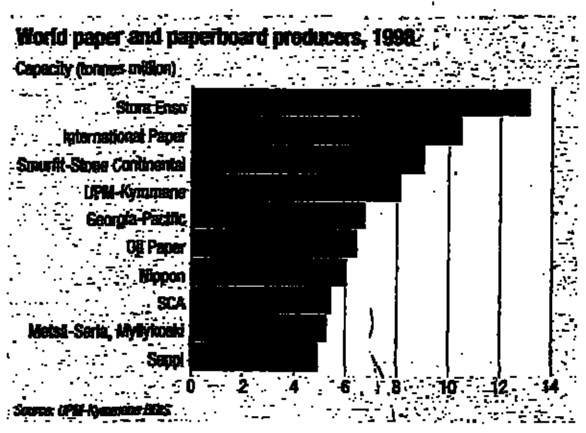
Alongside the M&A activity, companies are moving to strike strategic alliances with overseas partners. Champion in January undertook to act as US marketing agent for April of Singapore to market April's uncoated fine paper in North America, joining an international partnership which includes UPM-Kymmene and Japan's DaiEi.

SCA of Sweden and Weyerhauser, the US group, are together investigating testliner production in China and India.

Rolf Carlsson, a forestry expert at Gemini Consulting in Stockholm, believes the internationalisation drive can only intensify. "In Europe, producers have focused very strongly on the European market, but in order to maximise their competitive advantage they have no option: they must globalise."







World of paper: recent deals have been driven by globalisation strategies — Montage: Gary Cummins

PRICE TRENDS by Greg McIvor

Sombre faces look on

Weak pulp prices have started feeding through to paper and board

Price, in a commodity-based business like pulp and paper, is everything. It is no surprise, then, that the sharp decline in pulp prices since mid-year has put a sombre look on industry executives' faces.

Pulp, the main determinant of paper and board prices, has been a quixotic performer since hitting a near-record peak of US$1,000 per tonne in 1995. After sliding rapidly back to more modest levels, prices rallied briefly again last winter but have subsequently defied all attempts at resuscitation.

The price of Northern Bleached Softwood Kraft – or long-fibre – pulp sank to its lowest point this autumn for more than four years. Rates for hardwood pulp have fared no better.

At its current level of $460 a tonne, the NBSK price is barely sufficient for some producers to cover production costs. Adding to their worries, pulp's weakness has started feeding through to paper and board prices.

According to Enso, the Finnish group, a planned increase in European fine paper prices has been abandoned. Instead, pressure for price cuts is increasing.

Meanwhile, order backlog for key grades such as corrugated board is decreasing, although publication paper prices are still holding up.

David Clark, a UK-based forestry consultant, warns that the mid-term outlook is gloomy. "Producers have done a good job in taking downtime and much capacity has been permanently taken out, particularly in high-cost countries like North America," he says. "However, new capacity is coming on stream in Asia and there also may be a slackening in demand for paper because of the economic cycle."

A sharp price rise for NSBK to $500 per tonne, announced recently by leading suppliers, is unsustainable, he says. "I think it will go soft at the edges." Indeed, Södra, Europe's largest producer of market pulp, admitted last week the price increase was "meeting resistance" from customers. Nevertheless, the consensus in the market seems to be that pulp prices have at least reached their nadir for the current cycle. "Sentiment in the industry has improved following a weak summer and autumn," said Deutsche Morgan Grenfell, the investment bank, in a recent bulletin.

"Norscan inventories have come down significantly since the year high in September and pulp and paper prices seem to have hit rock bottom."

The problem is that the pulp and paper cycle is becoming ever more volatile.

Chronic overcapacity in Europe and North America, combined with the industry's fragmentation, has been aggravated by a surge in competition from low-cost Asian producers in the past few years.

During 1998 this phenomenon has been exaggerated by the Asian financial crisis. Collapsing demand and hefty currency devaluations in the Asia-Pacific region have increased the volume of cheap imports to Europe and North America.

The business climate has been further weakened by an abrupt sales decline for those western companies exposed to contagion-afflicted Asian markets. European packaging groups have been hit hard this year by a flood of supplies from North America originally intended for Asia.

Add in the risk of slower economic growth in Europe and North America next year and it is easy to see why bullishness is in short supply.

Assuming that pulp inventories continue to fall and producers maintain their new-found discipline in implementing production curbs, pulp prices seem destined to experience some upside in the months ahead.

But the recovery is likely to be slow and some observers remain sceptical about longer-term prospects of recovery. "We see a risk of inventories rising again during the winter and we are still cautious about the sector's profitability in the long run," says DMG.

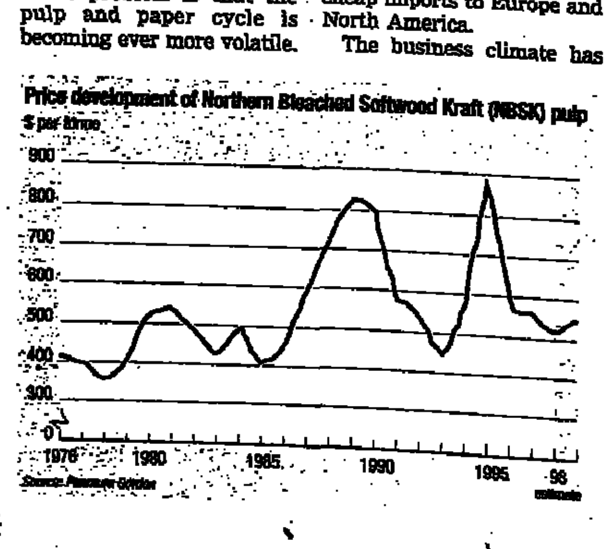
The weakness of market sentiment is underlined by prices on Pulpex, the London-based pulp futures exchange, where the March contract for long-fibre pulp was last week languishing at around $430 a tonne – below the market rate at the end of November.

Lennart Ahlgren, chief executive at Assi-Domän, the Swedish group, says the underlying market is soft. "We see some improvement in prices for sawn goods. Some segments in the board sector and barrier coatings are performing a bit better. The rest is rather gloomy."

Assi last month joined the small, but growing, group of companies that have decided they have little option but to confront the weak cycle by restructuring. Assi's announcement, which involves a 30 per cent cut in its senior management as well as plant closures, came as it announced a sharp decline in third-quarter profits.

In an industry that is plagued by endemic overcapacity and where operating margins are at present in clear decline, not even an unexpected bounce in prices is likely to stave off a further round of rationalisation.

Prices bow like diseased trees under the weight of excess supply



CASE STUDY
IPM-KYMMENE IN CHINA

Being bullish in a Chinese factory

The latest fruit of UPM-Kymmene's longtime co-operation with Singapore-based April should increase China's capacity for paper and board production enormously

On the banks of China's Yangtze river, some 100km upstream from Shanghai, last-minute preparations are in full swing for the opening of Asia's latest state-of-the-art paper plant.

By early March, the pea-green factory buildings at Changshu will echo to the din of the first rolls of fine paper being produced by a joint venture between Singapore-based Asia Pacific Resources International (April) and Finland's UPM-Kymmene.

The alliance, unveiled in 1997, is one of the most far-reaching and innovative between northern and southern hemisphere producers. Together, the two companies aim to tap Asia's vast potential as a region forecast soon to supersede North America as the world's largest paper and board market.

Notwithstanding the current economic crisis, which is expected this year to precipitate the first decline in Asian paper and board demand since 1981, the region's use of forest products will grow faster than any other in the next decade or two.

Foreign companies are now flocking to grab a share of the spoils. "Asian markets have the greatest paper-producing potential in the world," says Juha Niemelä, UPM-Kymmene chief executive.

"This potential has only recently been understood by western paper companies."

Mr Niemelä sees the April partnership as pivotal to UPM-Kymmene's strategy of establishing itself among the global leaders in magazine paper, fine paper and self-adhesive paper and laminates.

UPM-Kymmene's ties with April date back 15 years, when the two groups started collaborating in plywood. The new venture centres on fine paper, used for copying and printing, but also includes a small stationery plant at Suzhou, near Shanghai.

The alliance, consummated just as crisis struck Asia-Pacific's economies last year, envisages that the two groups will swap stakes of 30 per cent in each other's fine paper operations.

The exchange had been due to take place early next year but has been deferred because April is unable to raise finance to complete the third of three new fine paper machines.

Confronted by the credit squeeze which has afflicted Asia-Pacific's big corporations in the wake of the region's financial crisis, April was this year forced to seek a $235m bailout from UPM-Kymmene to enable it to complete the Changshu facility.

In return for the cash injection, UPM-Kymmene now has a 49 per cent stake in the plant as well as management control. April also operates a fine paper machine in Riau, Indonesia. A second machine at Riau is half-built but construction work is currently in limbo in the absence of $216m of additional financing.

Until the third machine is completed (the work is likely to take one year), the share swap between April and UPM-Kymmene cannot be carried out according to their agreement.

The Changshu factory, with annual capacity of 350,000 tonnes of fine paper, is intended primarily to serve the budding Chinese market.

It intends to exploit a shift among Chinese buyers towards higher-quality fine paper at the expense of domestically produced non-wood papers.

These papers, typically made from straw or reeds, are 30-40 per cent cheaper but cannot be used for copying, says Pertti Salminen, Changshu's general manager.

The scale of the Chinese market's potential is evident on a visit to Changshu. The April/UPM-Kymmene factory, built on an industrial park which itself is a joint venture between the Chinese and Singaporean governments, is supposed eventually to contain six machines.

Together, these would have a mammoth 2.1bn tonnes of annual capacity. This compares with the total Chinese market for high-quality fine paper which today is about 1m tonnes.

Sukanto Tanoto, April's chairman and chief executive, describes the collaboration with UPM-Kymmene as a "win-win" deal for both parties.

Such transcontinental tie-ups give the local partner a lower cost of capital, access to the latest technology and association with an established market pedigree, Mr Tanoto says. In return, the foreign party gains direct and smooth access to the world's fastest growing market.

April only entered the pulp and paper industry in 1989 and has since spent close to $2bn on accumulating an asset base that makes it Asia's second-largest paper company outside Japan.

Such spending has put a strain on April's balance sheet but Mr Sukanto believes the outlay is justified by the market's potential.

"Trees in Scandinavia take 60 to 70 years to grow; here they take seven years. You don't need an economics degree to see how you can make money," he says.

"What is the point in the Chinese paying Scandinavians and North Americans to grow trees in a difficult environment and then paying for paper to be transported from the other side of the world?"

At Changshu, fine paper will be produced using supplies of short-fibre pulp from April's Riau pulp plant, five-and-a-half days away by ship. The first pulp consignment is due to arrive in January.

One of the chief obstacles for companies contemplating an incursion into a developing market are cultural barriers and the often arcane ways of local bureaucracies.

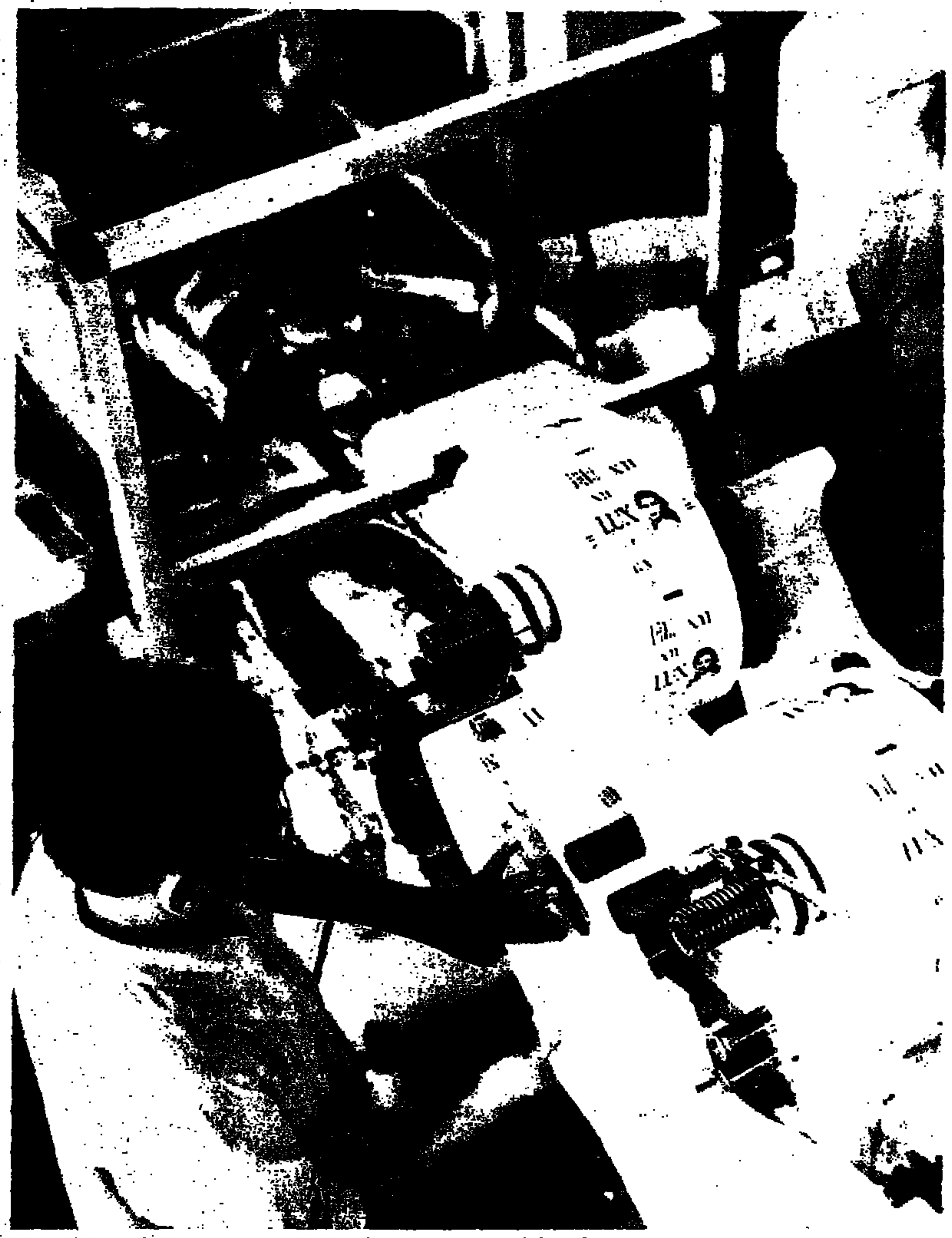
For companies like UPM-Kymmene, linking arms with a local partner eliminates some of these bumps.

At Changshu, there is a diverse ethnic mix. Around 60 Finnish, Taiwanese, Malaysian and Singaporean expatriates collaborate with about 540 native Chinese workers.

Mr Salminen says: "Naturally, there are differences between the Nordic and Asian way of doing business but overall the collaboration has been very smooth."

Early next year, when the fine paper machine at Changshu starts rolling, UPM-Kymmene and April will start to reap the benefit of this teamwork.

Greg McIvor



Roll-out: higher-quality fine papers are starting to replace cheaper non-wood alternatives

EQUIPMENT SUPPLIERS by Tim Burt

Development of machines to make paper and savings

Core industry reforms are forcing second-tier manufacturers to become as expert at financial engineering as they are at mechanical engineering

Turbulence in the world pulp and paper market has begun to shake the equipment manufacturers and tooling suppliers that serve the industry.

Companies whose lifeblood is the order stream from large papermakers have been hit hard by the combined effects of industry consolidation, pricing pressures and volatile demand.

Asia's economic turmoil and uncertainty in other emerging markets have also persuaded pulp and paper producers to delay new capital projects, leaving many machine manufacturers with excess inventories and order books that look horribly lumpy.

It is not a new experience for the industry, however. The notoriously cyclical nature of the market has long caused sleepless nights for the equipment suppliers.

Over the past 10 years, that trend has forced them to turn themselves from mechanical engineers into financial engineers. It is no longer sufficient for paper-machine manufacturers such as Valmet of Finland or Beloit of the US to deliver reliable turnkey equipment.

They have had to adapt by ensuring their machines not only function efficiently, but also contribute substantial savings and improved productivity for their customers.

That effort has become much more costly – in terms of research and development – given the environmental and energy-saving demands of the pulp and paper industries.

Pressure for global low-cost suppliers has, therefore, prompted a shakeout in the equipment industry, with small manufacturers being swallowed up by larger rivals and competitors considering mergers.

That process culminated last month with the agreed merger of Rauma and Valmet, the two Finnish specialist engineering companies, to create the world's largest producer of forestry equipment and papermaking machinery.

The enlarged company, boasting a market capitalisation of about US$1.4bn and combined sales of FM23bn ($4.4bn), will supply equipment from one end of the production process to the other, from timber processing to converting machinery.

Although the overlap between their existing operations is minimal, senior executives on both sides claim they can achieve synergy savings of FM400m a year by exploiting rising demand for plant automation, and by pooling their distribution and service operations.

The logic behind the deal – and others in the industry

> **'The market for new paper machines and pulp equipment has been almost non-existent for 12 months now'**

– is plain. Customers are getting bigger and more global. Their suppliers need to grow with them, while also seeking a low cost base at a time of sluggish orders and mixed demand.

"The market for new paper machines and pulp equipment has been almost non-existent for 12 months now, mainly due to Asian investments being put on hold," says Sakari Tamminen, chief financial officer at Rauma. "We have had to react to market conditions."

But Valmet was not Rauma's first choice as a merger partner. The company has had on-off talks with Alstrom, another Finnish pulp equipment group, but has consistently failed to agree satisfactory terms for a deal.

It is also not the first time that Valmet has pursued Rauma. Matti Sunberg, Valmet chief executive, says the companies have tried to consummate a relationship twice before during the 1990s.

"We are pleased that this time it looks like we will manage to do it," he adds. "Consolidation has been overdue, especially as the customers are expecting us to assume more responsibility for their production chain."

Many analysts suspect that the deal was brokered by UPM-Kymmene, which owns 34.5 per cent of Rauma, and which has long sought a less fragmented supplier base.

"UPM-Kymmene clearly regarded Rauma as an undervalued asset, and it may have engineered this deal as a way of boosting the company's share price going forward," one industry analyst says.

Whether that is the case or not, the deal has undoubtedly increased the pressure on competitors in the industry to consider similar betrothals.

On the pulp side, Kvaerner, the troubled Anglo-Norwegian conglomerate, might be open to an offer for its pulp machine operations – with Alstrom an obvious bidder. In the paper machinery sector, Beloit of the US might be tempted to explore an alliance with Voith, the Austrian-German engineer. That deal would bring together the second and third largest paper machine companies and prove a real challenge to Valmet.

At the other end of the production chain, Partek of Finland has warned that it is ready to challenge Rauma's dominance of the forest machine market.

Partek, a leading producer of timber harvesting equipment, believes further consolidation is inevitable. "It is easy to see we are moving to bigger units through mergers and acquisitions," says Christoffer Taxell.

In forestry equipment, that trend was demonstrated by the acquisition last year of Skögsgan, the small Swedish company, by Caterpillar of the US.

For the most part, that process is being driven by the customer. In both pulp and paper, customers want to cut purchasing, inventory and servicing costs.

Nevertheless, the equipment suppliers are also growing rapidly through innovative technology. In forestry harvesting equipment, for example, the Nordic pioneers of the "cut-to-length" method – in which trees are felled, de-limbed and cut in the forest using computer-aided machinery – see large potential to export the system to North America and beyond.

In papermaking machinery, suppliers are investing heavily in plant automation to help customers cut manning costs.

Behind all this is a strong profit motive. Increased size in itself does not guarantee better margins. Equipment manufacturers realise they must cut their own costs – particularly in marketing and distribution – to maintain profits in the face of increasingly parsimonious customers.

Given the dearth of large new orders, they also have to develop more profitable aftermarket activities. "There is money to be made in aftermarket and single-machine retrofits, but we have to make it more profitable," says one Rauma executive.

Certainly, recent profitability does not allow for complacency. Both Rauma and Valmet saw profits decline in the third quarter, and other component suppliers such as Scapa of the UK have issued a number of profit warnings this year.

The outlook on orders and prices is not expected to improve in the short term. If the equipment suppliers are to build market share and realise significant savings, more mergers and acquisitions will be down the line.

NORTH AMERICA by Scott Morrison

Pulp trails paper in process of rationalisation

Papermakers are starting to use consolidation to deal with price-depressing overcapacity, but there is a sense that pulp businesses are just panicking

Piled high: efforts to cope with overcapacity have begun but pulp producers are a long way behind on the road to rationalisation

A series of acquisitions this year indicates that North American paper producers are accelerating the pace of consolidation in what is widely regarded as one of the continent's most fragmented and poorly managed industries.

That is an item of desperately needed good news for an industry that is struggling to cope with overcapacity and weak demand, particularly in Asia – factors that have combined to depress prices and reduce margins.

Newsprint producers have been the more aggressive North American consolidators thus far, a trend that began with the 1997 merger that created industry leader Abitibi-Consolidated. Bowater, the US group, this year emerged as the world's second largest producer after its US$2.4bn acquisition of Avenor of Canada. Rationalisation continued this year when Canada's Donohue acquired two Champion International mills.

Consolidation has been abetted by paper producers selling off newsprint mills in order to focus on other core businesses, as in the case of Champion. Another example is Canada's Noranda Forest, which recently announced the sale of a newsprint mill as part of its strategy to focus on building materials, pulp and speciality papers.

The top three North American newsprint producers now control 50 per cent of the US market, compared with eight companies holding the equivalent capacity about three years ago.

Despite progress in consolidating newsprint production, the outlook for prices was bearish in late November following the end of a five-month strike at Abitibi-Consolidated, which had frozen 40 per cent of the group's newsprint capacity. Ronald Oberlander, the company's chairman, warned that prices could decline if other producers did not take downtime to curtail supply. There was no indication, however, that Bowater or Donohue would scale back production to compensate for Abitibi-Consolidated's return to the market.

Analysts have said that increased production combined with moderating North American growth could push newsprint prices down to US$500 per tonne from the current range of between US$550 and US$600.

The state of the pulp business is a clear reminder that the industry still faces significant challenges. The sector remains highly fragmented and global economic uncertainty continues to depress prices and margins, giving producers few incentives to consolidate and increase their exposure to a depressed sector. "Business in pulp is so bad that they don't even think about merging. The first step is to close down pulp mills," says one forest products analyst in Montreal.

A number of firms have begun to address the sector's overcapacity, considered by many to be the most prominent hurdle. Kimberly-Clark is expected to close at least one mill in 1999, while Georgia-Pacific is shutting down the production of 450,000 tonnes of pulp for at least two years. British Columbia producers have also curtailed pulp production.

It is encouraging that 1998 will be the first year in which no new pulp mills enter into production or are in development, says Chip Dillon, an analyst at Saloman Smith Barney. But many observers anticipate another year, perhaps two, may pass before the mill closures alleviate the overcapacity problem.

Perhaps the most dramatic changes in the North American pulp and paper industry involved consolidation among container board producers. Shareholders in late 1998 approved Jefferson Smurfit's US$5.8bn acquisition of Stone Container to create the world's largest container board producer. The new Smurfit-Stone moved quickly to tackle the overcapacity problem when it announced it would slash 10 per cent of its workforce and shut mills that produce about 1.1m tonnes of container board, equal to about 17 per cent of the group's output.

Mark Wilde, an analyst at BT Alex Brown, says Smurfit-Stone's capacity reduction, combined with mills shut down by other producers, should cut North American container board supply by as much as 2.5m tonnes annually within the next few years. Analysts applauded the company's initiative.

While seasonal factors are expected to push container board prices down over the next three months, Mr Wilde suggests that the cut in supply will produce a rebound in prices by the spring.

'Business in pulp is so bad, they don't even think about merging'

News of Smurfit-Stone's capacity cuts coincided with International Paper's announcement that it would acquire competitor Union Camp for US$6.6bn in stock and assumed debt. The deal would give the US company a 22 per cent market share for uncoated free sheet, one of the more fragmented sectors in the industry.

The acquisition would also establish International Paper as the second largest container board producer with 14 per cent of the US market.

Perhaps most importantly, the flurry of announcements in late November, which pushed US paper stocks higher, was seen to pressure other producers to respond with merger and acquisition deals of their own. Boise Cascade and Willamette Industries were among the North American paper groups seen as potential merger candidates. "The world has been waiting for something like this. It's a step in the consolidation of the worldwide paper industry," says John Dillon, International Paper's chief executive.

Forestry analysts and other industry observers had indeed been waiting for something like this to happen. They have been arguing that US paper producers had little choice but to rationalise in light of consolidation by Scandinavian producers over the past few years, but the deals had been slow in coming until this year.

The North Americans were among those to up the ante in 1998 with a series of Asian acquisitions and other deals, such as the US$1.3bn joint venture between Abitibi-Consolidated, Norske Skog and Hansol Paper of Korea. Bowater moved east with its US$223m acquisition of Korea's Halla Pulp and Paper, but it remained one of the few US groups to invest in Asia.

Mike MacCallum, head forest products analyst at PricewaterhouseCoopers, says a number of US paper producers have considered Asian opportunities in the past year, but the companies were likely first to focus on rationalising production in North America, where the fragmented industry provides the best opportunities for achieving cost-saving synergies.

Most industry observers expect US paper producers in 1999 to move more quickly to exploit opportunities in their home markets. But some analysts caution that such a strategy could eventually come back to haunt US companies if they fail to keep pace with international competitors expanding their reach throughout Asia and Latin America.

BRAZIL by John Barham

Determination to muddle through the medium term

If only operators can survive these straitened times, they should profit in the longer-term thanks to the country's high volume of pent-up demand

Brazil's pulp and paper industry, Latin America's largest in production terms, has begun what may prove to be a far-reaching and painful period of consolidation as companies struggle to increase margins. To add to the sector's difficulties, the trough in the industry's cycle is coinciding with a severe financial crisis in Brazil. The economy is expected to contract by between 2 and 3 per cent in 1999.

Josmar Verillo, who recently took over as chief executive of Indústrias Klabin Papel e Celulose, Brazil's biggest papermaker, with a mission to return the business to profitability, says in spite of these problems "there are opportunities".

"We are investing in capacity expansion. We are also thinking of acquisitions. There is a large number of companies and [the industry] needs consolidation."

Brazil has 220 paper and pulp companies, but only a handful are significant operators. Last year the five largest pulp companies accounted for two-thirds of output; the five largest paper companies held 45 per cent of the market. However, most – including some of the biggest companies – are losing money or breaking even.

Nonetheless, Carlos Augusto Lira Aguiar, who runs Aracruz, Brazil's biggest pulp company, says: "We are fully able to compete with companies in developed countries because our costs are among the lowest in the world, even with an overvalued currency. Companies need scale as well as good [product] prices."

He argues that consolidation "is only a matter of time because [local companies] are going to have to negotiate with international companies and unless you are the same size, you will be decimated. For a win-win situation, both sides have to be the same size." Aracruz exports nearly all of its annual output of 1.25m tonnes.

The consolidation process is likely to involve only Brazilian companies for some time, industry bosses say. Raul Calfat, chief executive of Votorantim Papéis, another big paper and pulp producer, says "consolidation has a regional character", concentrated in Scandinavia and North America. The big Brazilian companies will begin by taking over their weaker local rivals.

Mr Calfat thinks this process is likely to take longer than in Europe or North America since Brazilian law allows owners – almost all of them families – to retain control of companies by issuing only non-voting stock to outside investors.

Although most of the big pulp and paper manufacturers are listed on the São Paulo stock exchange, none can be taken over by raiders. Mr Calfat, whose company grew from nothing 10 years ago, in large part by acquisitions, says takeovers will have to come by negotiation, often involving a large number of family members with conflicting interests.

Big international companies have barely dipped their toes in the water

So far, the big international companies have barely dipped their toes in the water.

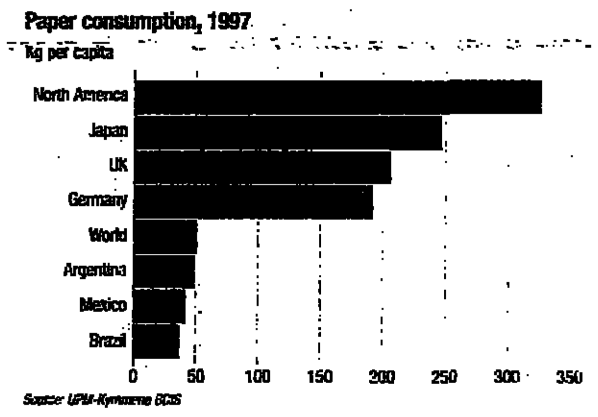
Champion has a small paper and pulp plant. Kimberley Clark has a tissue paper joint venture with Klabin. Stora Enso has an alliance with Oderbrecht, a construction group that is entering the paper and pulp market. Klabin is in talks with foreign companies to run its Bacell dissolving pulp plant, which was an expensive failure. And Mr Calfat of Votorantim says his company is "open to alliances with international players."

Eventually, the big international groups are likely to expand into Brazil as concentrated markets in North America and Europe force companies to expand into Latin America and Asia. Even the biggest Brazilian companies are small fry in global terms and many have weak finances, making some of them vulnerable to takeovers. However, Mr Aguiar of Aracruz says defiantly: "We are too big to be bought."

Local companies need to become more efficient, more profitable and less indebted to maintain their independence and prepare for economic recovery. If all goes well, growth could resume in 2000. If the government's IMF-backed reforms fail, Brazil could suffer several years of recession. The industry has already been struggling with low capacity and low prices for most of this decade.

Companies have cut costs aggressively. Aracruz has reduced headcount to 2,200 from 6,000 in 1992. The company plans to cut costs by $30 per tonne by 2002 and by a further $20 per tonne between 2002 and 2006.

However, cutting costs is not enough. All the large companies are trying to increase their production of more profitable value-added products. Klabin wants to increase the proportion of value-added products to 75 per cent of revenues (from 60 per cent now) over the next three years.

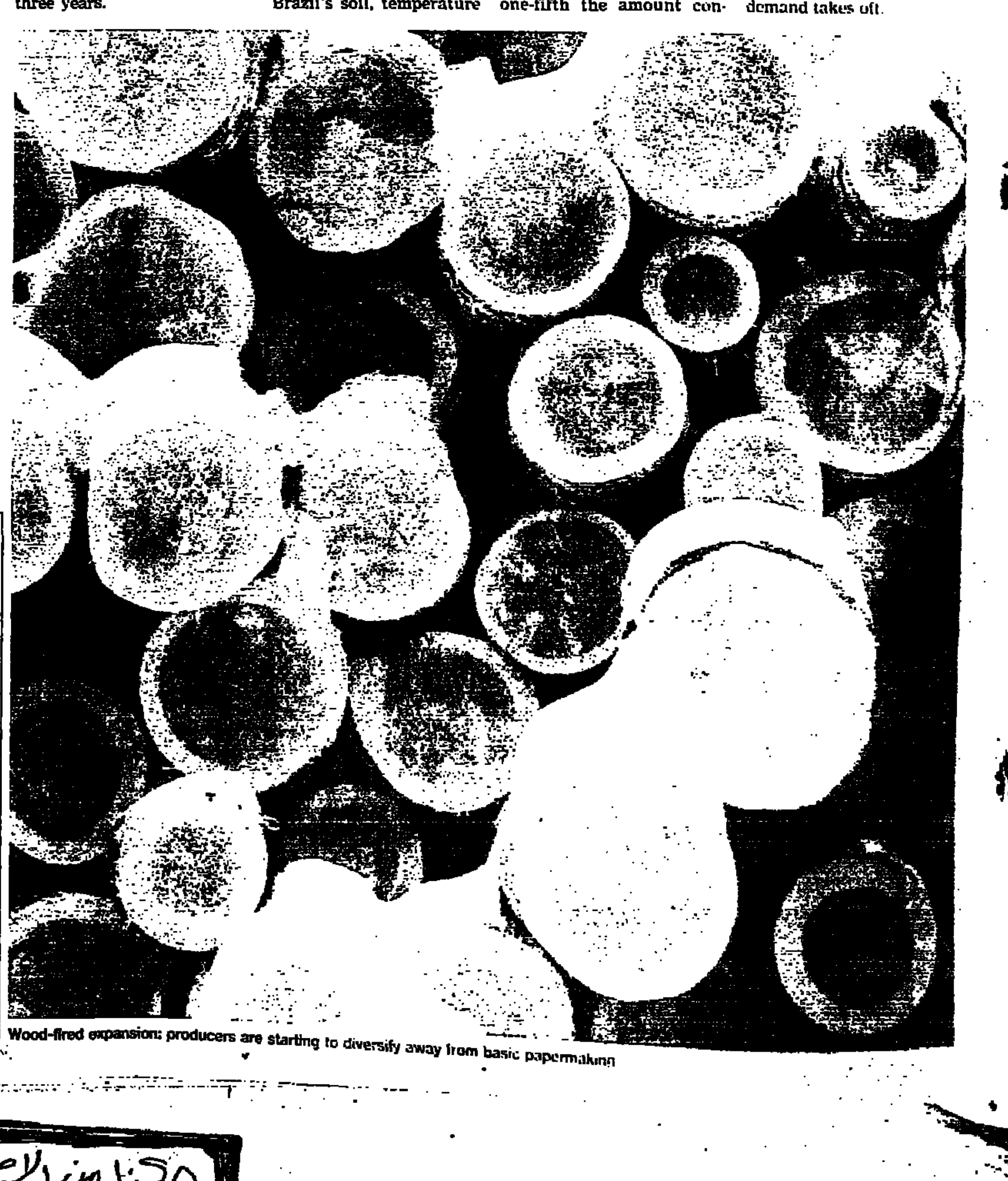


Votorantim is Brazil's only local supplier of coated wood-free paper and thermal and carbonless paper. Klabin and Aracruz are diversifying into the lumber market, producing wood for the construction and furniture industries from their forests.

Brazil's soil, temperature and rainfall make it one of the world's lowest-cost producers of forest products. The country ranks as the world's 11th biggest papermaker. However, consumption is still very low. Each Brazilian consumed an average 39kg last year, about one-fifth the amount consumed by the average European.

This narrow local market constrains the medium-term outlook for growth and profits. Excess capacity forces many companies to export, a lower-margin activity than domestic sales while a protracted recession could reduce sales of a product that is closely correlated to economic growth and the rise and fall in incomes.

Nonetheless, Brazil's longer-term prospects are very attractive. This is a large, immature market with pent-up demand for sophisticated products. Consumption surged by 10 per cent a year between 1994 when the economy grew sharply after the government cut triple-digit inflation and last year. What remains to be seen is which operators will be left in the game when demand takes off.

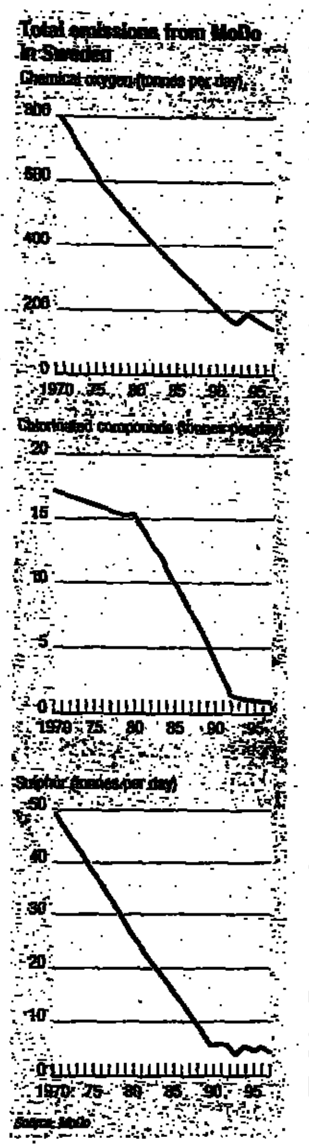


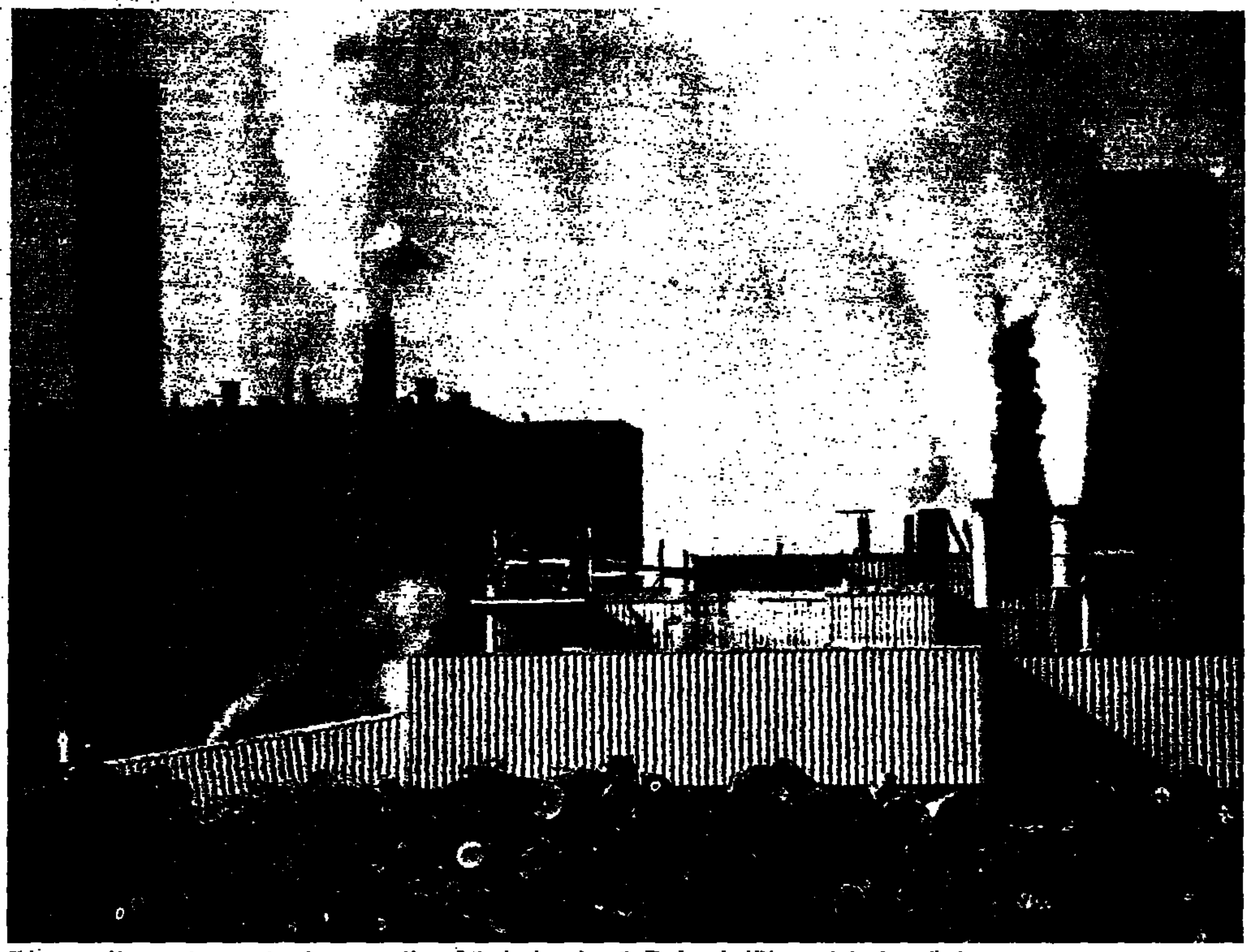
Wood-fired expansion: producers are starting to diversify away from basic papermaking

ENVIRONMENTAL ISSUES by Greg McIvor

Acknowledging the need to keep forestry green

Producers are feeeling a growing tension between the morality of less intensive foresting and the expected rise in demand for paper products in developing economies





Giving up smoking: recent progress to reduce papermaking pollution has been dramatic. The focus is shifting now to logging methods

Prodded by environmental pressure groups and impelled by tougher legislation, forestry companies have made great strides in reducing the ecological impact of their activities during the past decade or so.

Until quite recently, paper mills were serious polluters, spewing out contaminated water and noxious gases. Since the 1970s and 1980s emissions have been spectacularly reduced thanks to new technology that has enabled producers to shift away from chlorine bleaching.

Progress has been equally striking in recycling, an industry which had a difficult gestation due to resistance among some industry executives who feared – misguidedly – that it threatened the virgin fibre business. Today, recycling is an accepted and important cog in the paper industry wheel.

Recycling and plant pollution may no longer be contentious but the industry is still confronted by tough environmental challenges. Foremost among these is how to meet calls for a more sustainable approach to wood harvesting.

The practice of clear-cutting, whereby large areas of forest are felled and scarcely a tree left standing, has become a potent symbol for the environmental destruction which modern, intensive forestry can wreak.

Although it is the most economical method of logging, clear-cutting has been blamed for soil erosion and flooding as well as for destruction of wildlife habitat. In China, this year's disastrous floods were blamed by the government on deforestation. Tough new laws on logging companies in China now seem likely.

In those areas where clear-cut areas are replanted, the former forest is often replaced with monoculture-style plantations, which support only a reduced range of plant and animal species.

Pressure for a more eco-friendly approach has persuaded some companies, led by large Scandinavian producers, to abandon clear-felling. Instead, these groups have embraced a concept known as "ecological landscape planning", whereby old-growth and dead trees are preserved and valuable areas, such as woodland bordering watercourses, are set aside as nature zones.

AssiDomän, the Swedish group, estimates that 10 per cent of its harvestable forest yield is "lost" to ecological landscape planning. Yet executives believe that the company's ability to portray its logging as environmentally sound is a price worth paying. Increasing numbers of Europe's largest forestry groups now share this view, but ecological landscape planning has been slower to catch on elsewhere.

In North America, environmentalists still clash regularly with large timber companies over the industry's refusal to abandon clear-felling. In British Colombia, home to Canada's big forestry industry, 95 per cent of logging is carried out via clear-cuts.

But here, too, attitudes are softening. After a bitter battle with environmental organisations, culminating in a boycott of its products by Greenpeace, MacMillan-Bloedel of Canada this year vowed to cease clear-cut logging in its forests in British Colombia and announced it wanted its logging activities to be certified by the Forest Stewardship Council.

One or two other companies have offered similar pledges. MacMillan's olive branch to the FSC underlines the growing importance of the Mexico-based organisation. Founded in 1993 by a collection of environmental pressure groups, timber interests and indigenous peoples' organisations, the FSC has become an influential tool for companies that want to convince consumers their environmental practices are sound.

The FSC – started with grants from the Austrian and Mexican governments, the World Wide Fund for Nature and the Ford Foundation – has so far endorsed more than 8m hectares of forest which it considers are managed responsibly: that is, where commercial exploitation takes account of long-term environmental and social considerations so that logging is carried out in a sustainable manner.

FSC-certified forests now exist in 30 countries, including Sweden, Malaysia, South Africa, Costa Rica and the UK. Certification, carried out by independent auditors accredited by the FSC, is fast becoming the benchmark against which forestry companies' adherence to good environmental practice is judged.

Other, rival standards exist but the FSC appears to have a head start. Christoph Thies, forest co-ordinator for Greenpeace International, says development of the FSC standard is "the first time that the economic side has been brought together with the social and ecological side to reach a viable solution which is environmentally sound. It is the only approach we see so far which is really credible".

Ignoring the FSC can prove costly. When J. Sainsbury, the UK retail chain, last year reviewed timber procurement for its Homebase do-it-yourself outlets, it shifted a £7m contract from Finland to Sweden because of the Finns' insistence on developing a domestic certification system in preference to FSC guidelines.

"Our customers will expect that we know where a [wood] product comes from and, most importantly, how it was produced," says George White, a Sainsbury environmental manager.

According to Mr White, Sainsbury sells 18,000 forest-derived products. Of these, only about 500 are backed by an FSC certificate, but he expects the number to treble within the next two years.

Even with the FSC, paper companies are confronted by an inherent contradiction between shareholders' expectations of ever higher profits and the preservation of biodiversity – the panoply of flora and fauna that inhabits ecosystems.

This is particularly so in the developing regions of Asia and Latin America. Juha Niemelä, chief executive of Finland's UPM-Kymmene, says: "There is no alternative to intensive forest cultivation when growing Asian populations raise their standards of living." Nevertheless, he argues there can be an acceptable trade-off between conserving species and satisfying inexorably rising demand for paper and board by, in effect, sacrificing some forests for intensive timber production to protect others.

In Indonesia, Mr Niemelä says, setting aside just 1 per cent of the country's forests for timber production would satisfy projected demand for paper and board up to 2005. According to Mr Niemelä, this equation means rainforests have little to fear from the logging industry.

PROFILE
JEFFERSON SMURFIT

Boxing clever

The head of Ireland's biggest company, which produces the raw material for box-making, uses shrewd management to buck the business cycle of his industry

Family tree: Michael Smurfit and his sons hold senior jobs Maxwell

It is said by analysts that Michael Smurfit "tends to buy other people's mistakes".

Certainly, the chairman and chief executive of Jefferson Smurfit, Ireland's largest company and one of the world's leading producers of containerboard, has acquired a reputation as a shrewd judge of the paper industry over the years.

His latest move was to merge his US associate with Stone Container creating in the process the biggest producer of containerboard – the raw material for boxes – in North America.

His business methods – which legend has it he learnt while devouring management textbooks during a long illness as a young man – are simple. He buys out weaker competitors at the bottom of the cycle rather than building new capacity – in this way the next upturn is not put in jeopardy.

The approach also means the company is all the time acquiring scale. The larger it becomes in any particular market, the more it can instill the disciplines needed to prevent an explosion of capacity which too often happens when prices rebound.

Paper stocks are notoriously volatile. As a lead indicator, paper prices tend to follow the ups and downs of the wider economy. Picking the moment to buy is obviously no mug's game.

But industry analysts say Mr Smurfit has an instinctive feel for the sector. His roots in the industry are deep. Even in his school holidays he was working at the family firm with his brothers and sisters.

Jefferson, his father, was the founder, but it was Michael who has given the company its international profile, reaching out from a sometimes parochial Irish business culture to make the company a global business concern, with a market capitalisation of I£2bn.

Under prompting from Michael, his father took the small Dublin-based box company public in 1964. Michael had returned from England in 1955, where he had run a small paper company, having sought to escape his domineering father.

When he became chief executive in 1977, the company was making profits of I£175,000. Its pre-tax profits reached I£200m in 1996, slipping back to I£139m in 1997.

Growth has come almost exclusively by way of acquisition, first in Ireland where he bought out the long-established print and packaging companies that were part of the declining Protestant industrial and professional ascendancy in the 1960s. The UK was the earliest overseas target, then the US, and more recently Europe and South America.

The company is now the largest paper-based packaging company in the world, operating 400 factories in 25 countries.

It has two main advantages over its peers. First, its geographic spread has meant it is much less vulnerable to the vagaries of regional demand. In 1993 when the economies in continental Europe slowed down, Smurfit was able to offset some of the damage from earnings from its South American operation, which at the time accounted for 60 per cent of group revenues.

Second, the integrated structure of its businesses means it is less exposed to hikes in pulp prices.

With its new position in the US market, which largely determines world paper prices, a tighter market there will mean benefits for its operations elsewhere around the globe.

But to some investors, the global profile of what is now a multinational company sits a little uneasily with the image of Jefferson Smurfit as a tightly controlled family-run business.

Certainly in Ireland, where domestic institutions account for 40 per cent of Jefferson Smurfit shares, this has hurt its image. Institutions are also uncomfortable with Michael Smurfit retaining the roles of both chairman and chief executive, contrary to the good governance recommendations of the Cadbury report.

By contrast, in the US where the company is increasing its profile, there are no such investor worries. "There they buy management," says Mark Kenny, Smurfit's head of investor relations.

Certainly there is a public relations challenge posed by the succession. His oldest son Tony, 38, looks as if he is being groomed to take over. He now runs the European operations. Michael junior, who is still in his 20s, runs the non-core activities in the US.

The company has also made big strides in bringing on non-family members to key executive positions. Paddy Wright is now the chief operations officer and Ray Curran, the former finance director, has just been despatched to run the merged US operation. But without a clear signal, succession questions are likely to persist, particularly with Mr Smurfit reaching retirement age in four years' time.

John Murray Brown

EUROPE by Tim Burt

Cold water on bold strategies

Hopes that expansion abroad could absorb excess capacity have been dampened

At the start of this year, the mood among most European paper and forest product groups was relatively optimistic.

Company executives saw signs of price rises and hoped to bolster margins – having reduced both capacity and inventories during the previous six months.

Many companies also planned to push ahead with greenfield plants or joint ventures in the emerging markets of south-east Asia and eastern Europe. The logic was compelling: improved productivity and stable prices in the more mature markets of western Europe would underpin profitability, while rising demand in emerging markets would deliver top line growth.

The theory, however, has not been translated into practice.

Large European papermakers such as UPM-Kymmene *of Finland* and Assi-Domän of Sweden have taken the first step, setting up joint ventures and new facilities in China and Russia respectively.

But the economic turmoil this year in Asia and Russia has halted, or at least delayed, the prospect of generating large revenues in those areas.

Moreover, prices for raw materials and finished products have proved as volatile as ever. A sustained recovery, therefore, still appears elusive.

But senior European papermaking executives are not in despair. True, hefty *investments in new markets* have so far failed to deliver tangible results and prices have not behaved as expected. But European producers are less vulnerable to such hiccups than in the past – nowadays they are more willing to address the problems through bold strategic moves.

Sluggish demand in emerging markets, for example, has been more than offset by increased volumes in Europe. The pulp and papermakers are meeting such demand from reduced capacity, thereby cutting costs and improving margins.

Where they have failed to realise such gains, large companies have looked to consolidation to bolster market share and reduce overlap.

That trend was thrown into the spotlight earlier this year with the friendly merger of Sweden's Stora and Enso of Finland, creating one of the world's largest paper and forestry products groups – at least in volume terms.

UPM-Kymmene, the main European rival to Stora Enso, has also hinted that it *could join* the merger bandwagon. "We cannot just watch this consolidation from the sidelines," says Juha Niemelä, UPM-Kymmene chief executive. "We are studying and scanning the industry for opportunities."

Unlike Stora Enso, however, UPM-Kymmene could justifiably claim to be more discerning and market sensitive in its acquisition strategy.

Its joint venture with Asia Pacific Resources International of Singapore – though not immune from financing problems – has given the company an important foot*hold in the resource-rich* areas of south-east Asia, and a potentially strong presence in China.

Last year's US$650m acquisition of Blandin Paper, one of North America's largest producers of magazine-grade paper, has also filled a gap in UPM-Kymmene's US exposure.

A soaking overseas: the timing of European papermakers' moves abroad has proved unfortunate

There have been similar sizeable bolt-on acquisitions by other European producers, including Metsä-Serla of Sweden, which bought UK Paper this autumn, and Jefferson Smurfit which merged its US operations with Stone *Container*.

All this indicates that the European companies remain in fairly robust shape, with balance sheets capable of absorbing large transactions. They have also been more willing to shut down production lines and mills to avoid overcapacity, thereby averting a sharp fall in prices.

That is just as well. The downturn in Asia and the mixed outlook in North America have persuaded companies there to look to Europe's relatively strong growth with envy. Going forward, there is every prospect of European producers com*peting in a market place* awash with cheap Asian imports and strong North American rivals.

The European sector is attracting such new arrivals because per capita paper consumption is expected to grow much more strongly than elsewhere. Between now and 2010, such consumption is projected to grow by 28 per cent in western Europe, compared with 11 per cent in North America.

The largest companies, such as Stora Enso and UPM-Kymmene, are well *placed in cost terms* and international presence to make the most of that growth. But the future of medium-sized European producers is far less certain. Companies such as Norske Skog of Norway and SCA are considered too thinly spread in too many areas. They need to focus on their core competencies, and withdraw from businesses where they will never achieve sufficient mass to be truly global operators.

Even relatively large companies have not been immune from the intensifying competition. AssiDomän, for example, announced a *sweeping management* shake-up in a bid to lift flagging profitability.

It has reacted to sluggish sales in emerging markets and weakening profits at home by seeking cost savings of SKr100m a year, while hoping to double return on capital to 15-17 per cent. So far, it has proved the most visible victim of the Asian downturn and increased imports to Europe.

At least the company recognises the scale of the problem and is taking action. But the full benefits could take several months, if *not years to be realised. In* that time, AssiDomän and other companies that are undergoing restructuring could become takeover targets, particularly if emerging markets fail to revive and prices continue to decline.

Against that background, profits are likely to come under further pressure across Europe in 1999. Companies are reacting to that threat by reducing capacity utilisation.

It remains to be seen whether that, in itself, will be enough to defend margins at a time of rising North American imports and fall*ing demand in Asia.*

One certainty is that market trends in Europe will lead to continued upheaval in the industry. The race for market share is far from over.

RUSSIA & THE BALTICS by Anthony Robinson

Lost in the woods

Despite the relative success of the Baltic states, Russia is still far from realising its full paper-processing potential

Russia is the most forested country in the world, but has never been able to extract the full potential value of its wood by moving downstream into the capital-intensive processing of paper-based products which is the main source of added value for the timber industries of its Scandinavian neighbours.

Last year, for example, Russia exported 66m cu metres of timber worth $3.1bn, but this was only a quarter of the value of the wood-based exports of neighbouring Finland, a fraction of Russia's size and one of the biggest buyers of Russian round wood for processing in its own pulp and paper factories in eastern Finland.

In 1997 Finnish companies imported 12m cu metres of timber to supplement their own forestry output of which 10m cu metres came from the neighbouring Russian province of Karelia.

Once fully processed into high-quality printing paper or tissue, the value of the finished product can be up to 10 times higher than the cost of imported raw round wood.

The Soviet regime *attempted to capture some of* this value-added potential in the 1970s with heavy investment in foreign pulp and paper machinery and the construction of giant paper and pulp plants, such as the Seghezhabumprom plant north-west of St Petersburg which became the world's largest producer of paper bags, including heavy duty paper cement sacks.

Two years ago Sweden's AssiDomän bought a controlling stake in the plant but walked away from its investment a year later when it found it did not have the local knowledge and the special managerial skills needed *to cope with the political and* cultural complexities of running a Soviet-style plant in an isolated one-company town. The plant is now being subsidised by the regional government while bankruptcy proceedings continue.

Despite the costly and embarrassing failure of its first acquisition, the Swedish company persevered with a smaller greenfield packaging and board plant in St Petersburg. Then, only weeks before the Russian rouble plummeted in the wake of the mid-August financial crisis, US-based International Paper bought a 90 per cent stake in the Svetegorsk paper mill close to the Russo-Finnish border from the Swedish Tetra-Laval group, the previous owners. This followed Tetra's sale of the separate downstream processing side of the complex producing toilet paper, baby diapers and female hygienic products to another Swedish company, SCA.

> **The question now is whether devaluation will encourage greater foreign investment**

With the rouble devalued by 60 per cent against the *dollar since* August exports of Russian wood products from timber through to paper, board and newsprint have become much more price competitive while imports have fallen sharply. The question now is whether devaluation will encourage greater foreign investment in downstream processing for the domestic market and for export.

The current government led by Evgeny Primakov believes that attracting foreign investment into Russia's capital-starved and obsolescent "real economy" is essential to get Russia out of the crisis.

But Mr Primakov still has to demonstrate that Russian politicians have the political will and support to improve the legal, tax and institutional framework sufficiently to compete effectively with other countries for such investment.

The short to medium-term prospects are not promising, given overcapacity worldwide and the industry's current painful round of global rationalisation.

In the meantime, attention is focused on the *former* Soviet Baltic states which have plentiful forests and have managed to create a much more investor-friendly climate.

In Estonia the Singapore-based Tolaram group last year successfully re-opened a small pre-war pulp plant which was virtually the sole employer of the small town of Kehrar, about 70kms west of Tallinn. It then decided to build a new export-orientated tissue paper plant next-door. The success of its first venture in the pulp and paper sector encouraged the expatriate Indian owners to bid for construction of a much *larger* integrated pulp and paper complex in Latvia, which has more wood and lower labour and other costs than Estonia.

In the end, the Latvian government awared the tender for the 600,000 tonne-a-year plant to a consortium led by Södra of Sweden and *Metsä-Serla*, the Finnish pulp and paper group which recently paid $155m for the UK's biggest fine paper producer, UK Paper.

The $960m Latvian plant represents one of the biggest pulp and paper investments in recent years and is by far the largest single investment in the Baltic region since the three Baltic states regained their independence from Moscow in 1991.

The challenge facing Russia is to create the conditions where similar future investments will be located inside this huge country of 150m potential consumers. It has all the raw materials, *water and energy needed*, as well as the skills. What is lacking is the investment climate and political commitment needed to attract the foreign capital and know-how on the scale required.

FINANCIAL TIMES SURVEY http://www.FT.com

HUNGARY

MONDAY DECEMBER 7 1998

Annual country review

Millennium promises many happy returns

The Magyars can look forward to their state's 1000th birthday, says Kevin Done, as membership of Nato and the EU confirm its transition from the communist era

While the world prepares for the millennium, Hungary is readying itself to celebrate the Magyar Millennium, 1000 years of statehood dating from the coronation of King, later Saint, Stephen with a crown sent by the Pope in 1000.

The event is being approached with a new sense of confidence in Budapest. Hungary is consolidating its position as the leading fast track reform country in central and east Europe. Poised to become a full member of Nato, the western defence alliance, in April next year alongside Poland and the Czech Republic, the country is also forging ahead determinedly with its effort to join the European Union in the early part of the next decade.

The sense of change has been reinforced by the victory in the summer's general election of the centre-right forces led by the Fidesz-Hungarian Civic Party and its youthful leader Viktor Orban, who succeeded in ousting the Socialist-led government of Gyula Horn.

At 35 Mr Orban embodies the shift of generation that is under way. He was a founder, as a young law graduate a decade ago, of the Federation of Young Democrats (Fidesz), one of the first opposition political parties.

The sense of a new era has been accentuated by the defeat of Mr Horn, foreign minister in Hungary's last communist government, who had played an important role in accelerating the political changes in east Europe in 1989 with the opening of the Hungarian borders for the exodus by thousands of East Germans to the west.

While leadership is passing to a new generation, there remains broad continuity on the foreign policy agenda with an unswerving commitment from government and opposition – with the exception of the extreme right-wing nationalists – to the cause of closer integration with the west exemplified by the determination to join Nato and the EU at the earliest possible date.

Officials in Hungary are fond of pointing out that if the country is not a member of the EU by January 1, 2002, it will be the EU's fault. The country will be ready, they insist, a conclusion that was largely endorsed in the European Commission's latest progress report last month.

"We would like to be members by early 2002," says Janos Martonyi, foreign minister. "But it depends on the other party too. The key issue is what happens inside the EU with the common agricultural policy, reform of the structural and cohesion funds and institutional reforms. But I am optimistic, they must reform the Cap."

Hungary has made good early progress in taking on the *acquis communautaire*, the formidable body of EU legislation, but substantial issues lie ahead in thorny areas such as agriculture, the environment, border controls and the free movement of labour.

Hungary says its farmers should enjoy the same subsidies as their EU counterparts from the start. But Brussels maintains that subsidies under the Cap were designed to compensate farmers for progressive lowering of farm support prices – which non-EU farmers never enjoyed anyway.

Another big worry is relations with the 3m ethnic Hungarians living in neighbouring countries, particularly Romania and Slovakia, and how these could be affected by the Schengen agreement, the EU's open internal borders policy. Schengen membership would mean opening Hungary's border with the EU, while turning the rest of its borders into the EU's external frontier.

Prime minister Viktor Orban has promised to give greater prominence to the issue of the Hungarian minorities abroad and he repeated on election night, amid the euphoria of victory, that the borders of the Hungarian state and the Hungarian nation are not the same.

Such remarks have caused concern among western diplomats in Budapest, who fear a deterioration in relations with neighbouring states, in particular Slovakia and Romania.

The result of the recent Slovak election with the defeat of the strongly nationalist government of former prime minister Vladimir Meciar, has helped to allay such fears, however, and contacts between the two governments in recent weeks have been marked by a much more constructive approach than has been the case in recent years.

Relations between Budapest and Bratislava will continue to be burdened by deep disagreements over the development of the Gabcikovo/Nagymaros hydroelectric scheme on the River Danube, which the Hungarians abandoned at the beginning of the 1990s and which the Slovaks want completed in line with the original treaty agreed in 1977.

With little prospect of a settlement the dispute is due to return to the International Court of Justice in the The Hague this month but both countries appear ready to lower the temperature of the disagreement.

Symbolic of the improved dialogue between Hungary and Slovakia is the recent decision to rebuild the bridge across the Danube, the international frontier, linking the towns of Esztergom and Sturovo. The broken pillars of the bridge, destroyed by the Nazis in 1944, have born eloquent testament to the history of disagreement between the two countries.

While continuity has characterised the foreign policy agenda of successive Hungarian governments since the collapse of communism – the commitment to early membership of Nato and the EU is staunchly supported by a large majority of the population – a much greater sense of uncertainty and trepidation over the future course of economic and domestic policy greeted Mr Orban's election victory.

This uncertainty was underscored by his dependence on the right-wing Smallholders party and its unpredictable, populist leader Jozsef Torgyan.

But the performance of the coalition has defied the sceptics as Mr Orban has been quick to lay aside many of the lavish campaign promises which had unsettled the financial markets.

Investors have also been reassured by the decision to keep György Suranyi as governor of the central bank and the appointments of Zsigmond Jarai, a former banker and chairman of the Budapest stock exchange, as finance minister and Attila Chikan, a professor of economics highly regarded by the business community, as minister of economic affairs.

Mr Orban has inherited a fortunate legacy from the Socialists. The former government suffered the consequences at the polls of the tough austerity measures imposed in 1995 but its policies succeeded in putting the country, for the first time, on the track of strong, sustainable economic growth. Inflation has fallen sharply, while external debt and the threat of deficits in the budget and the current account have been greatly reduced.

Of more concern is the way that the tones of the domestic political debate have become increasingly shrill and antagonistic as Mr Orban has pushed ahead with his campaign promises to crack down on corruption, organised crime and drug abuse. He has embarked on a course of confrontation with various groups in society and is already facing charges of arrogance and of mishandling opposition and media criticism.

The honeymoon could soon be over.

ECONOMY by Kevin Done and Kester Eddy

Convergence on course

Russia's upheaval rocked Hungary until the world recognised that the country's fortunes had become increasingly aligned with the west

Attila Chikan, Hungarian minister of economic affairs, likes to make the point that Hungary is "not an emerging economy any more, it is a converging economy. It is no longer coming out of the communist system, it is converging with the requirements of the European Union. We have a valid plan to be ready by 2002."

There is still much to be done, not least in the area of sensitive public sector reforms in health, education and local government, which must be added to the pioneering reform of the pension system already in place.

But Hungary has emerged as the fast track leader in central and east Europe. It has undertaken speedy, and relatively transparent, privatisation to the point that it now has the highest private sector share of GDP of any country in the region at around 80 per cent. It has proved by far the most attractive location for foreign direct investment, accounting in the past 10 years for 23 per cent of such investment in east Europe and the former Soviet Union.

It has developed a modern banking and financial sector and has been more prepared than any other transition country to open its banks to foreign investors in order to receive the necessary injection of new capital as well as western technology, management expertise and products.

The process of building the institutions of a market economy is far from complete. The development of a small and medium-sized enterprises sector is in its infancy. The government has plans to tackle a common complaint from small companies about the lack of available capital.

A tough test of its achievements has been provided by the financial and economic upheaval in Asia and Russia.

Hungary wobbled and, for a few weeks in the early autumn, the outlook appeared grim.

The Budapest Stock Exchange, whose bull run from the end of 1995 saw the Bux index rise 500 per cent from 1500 to 9016 with market capitalisation of $17.5bn, had been undermined by election jitters in the spring. But it was hit very hard by the Russian crisis.

The index plunged by more than 50 per cent from 8300 to 3775 oblivious to cries that most companies remained unaffected by Russia and that nearly three-quarters of Hungary's exports go to the EU. The central bank, which under the leadership of György Suranyi, had already moved to put country risk limits on bank lending to Russia, was forced to intervene to support the currency.

Hungary weathered the crisis, however, as the message struck home that the country had moved into a different category of risk and that its fortunes are much more influenced by economic developments in the EU than in countries to the east. There has been a substantial recovery with the index nudging 6000.

Hungary had to swallow bitter medicine in 1995 and 1996 with the imposition of tough austerity measures to deal with the threats posed by the rising deficits in the budget and the balance of payments and unsustainable debt levels. But the benefits of those measures are now clear to see, as the economy has been placed on a path of sustainable growth.

Mr Suranyi claims that Hungary has also made a "big breakthrough" in reducing inflation, which he forecasts will fall into single figures for the first time in 12 years at around 9 per cent year-on-year by December 1999. The rate of inflation has fallen sharply this year from 18.4 per cent in December 1997 to a forecast level of between 11 and 12 per cent at the end of 1998.

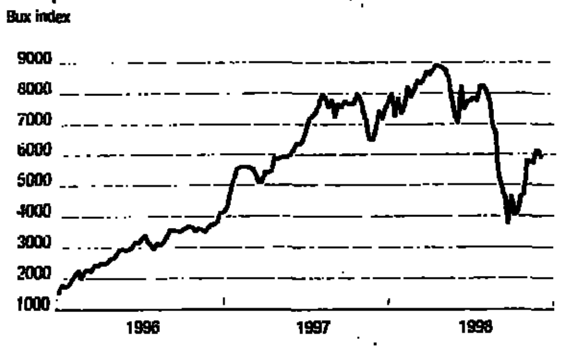
GDP growth this year is expected to reach around 5 per cent with little sign of slowing down during the year with activity driven again by a strong growth in exports of 26 per cent in volume in the first six months following a jump of 28 per cent in 1997. Exports are forecast to rise again by 12 to 14 per cent in 1999.

The improvement achieved in the current account of the balance of payments in 1997 has largely been maintained with the deficit forecast by the central bank to total around $1.5bn, or less than 3 per cent of GDP. "There are no signs of any significant deterioration at the moment," says Mr Suranyi.

In preparing next year's budget the government has lowered its forecast for economic growth to between 4 and 5 per cent and has abandoned most of the more lavish promises made in the summer election campaign.

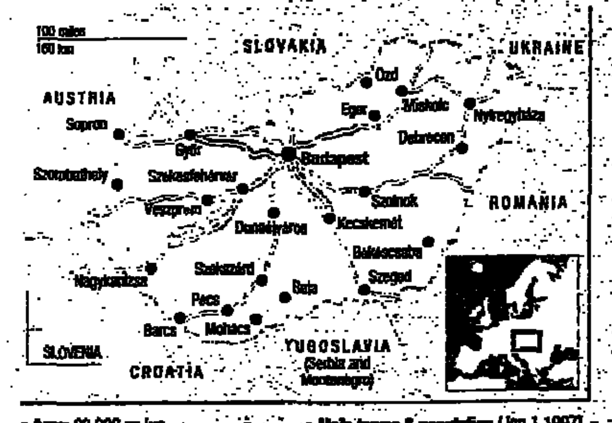
"In the face of the global economic crisis we must be very prudent in economic policy," says Mr Chikan. "There were fears this would be a spending government because of the social priorities expressed in the Fidesz campaign but now it is clear that if we are to survive in the long-term we must put stability first."

Budapest
Bux index



Source: Datastream/ICV

FT file | Constitution | Economic summary



- Area: 93,030 sq km
- Language: Magyar (Hungarian)
- Currency: Forint (Ft)
- Exchange rate:
  1997 average $1=Ft203.50
  December 1 1998 $1=Ft218.595
- Population: 10,153,000 (mid 1997)

- Main towns & population (Jan 1 1997)

Budapest (capital)	1,886,000
Debrecen	208,000
Miskolc	178,000
Szeged	166,000
Pécs	161,000
Győr	127,000

Constitution

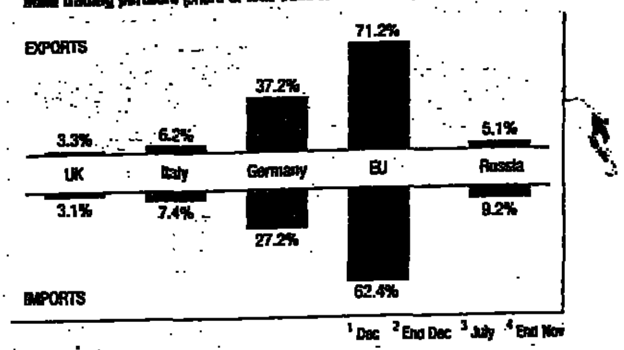
- Official name
Hungarian Republic
- Form of state
Multiparty republic
- Legal system
Based on constitution of October 1989
- National legislature
Unicameral parliament of 386 members, of whom 176 are elected from single-member constituencies. Constitutionally, supreme power is vested in parliament. The Constitutional Court has powers to overturn parliamentary decisions and governmental decrees deemed contradictory to the constitution
- Electoral system
Universal direct suffrage over age 18
- National elections
May 10 and 24 1998; next election scheduled for 2002
- Head of state
The president, currently Arpad Goncz (re-elected by parliament on June 19 1995)
- National government
A coalition government, led by the prime minister, Viktor Orban, and consisting of the Federation of Young Democrats-Hungarian Civic Party, the Hungarian Democratic Forum and the Smallholders' Party, took office in June 1998

Source: Economist Intelligence Unit; EBRD

Economic summary

	1997	1998
Total GDP ($bn)	44.7	48.7
Real GDP growth (annual % change)	4.4	4.8
GDP per head ($)	4,482	4,620
Inflation (annual % change in CPI)	18.3	15.0
Average wages (annual % change)	22.3	20.0
Industrial production (annual % change)	11.1	11.0
Unemployment rate (% of workforce)	10.4	9.4
Unit labour costs (annual % change)	-3.9	-0.2
Foreign exchange reserves ($bn)	8.4[1]	9.7[3]
Government balance (as a % of GDP)	-4.9	-4.9
Total foreign debt ($bn)	23.7	22.9
Current account balance ($bn)	-1.0	-1.6
Merchandise exports ($bn)	19.6	22.0
Merchandise imports ($bn)	21.4	24.4
Trade balance ($bn)	-1.7	-2.4
Three month inter-bank rate (%)	20.1[2]	18.5[4]

Main trading partners (share of total trade to world 1997)



[1] Dec [2] End Dec [3] July [4] End Nov

BANKS by Kester Eddy

Immigrants bring profit culture

Critics argued that liberalisation handed the sector to foreigners but the effect has been positive

Hungary has led central and eastern Europe in banking reform. Since the consolidation of the loss-making former state banks in 1993-95, foreign shareholders – US, European and Japanese – have taken a 70 per cent stake in the sector.

"The banks have started behaving as banks," says Peter Cserfalvi, analyst with the Focus rating agency in Budapest, part of the Thomson Bankwatch group.

Privatisation was controversial, with accusations of foreigners getting the nation's wealth at a give-away price, but the new owners have improved – and, in some cases, introduced – management information, reporting and credit risk evaluation systems. They have introduced better training and levels of professionalism which are taken for granted in western financial markets.

The main blot on the recent record is Postabank which, along with a couple of small banks, slipped through the net, mainly due to political interference.

Postabank, formerly headed by the well-connected Gabor Princz, built up an empire which has lost an estimated Ft158bn this year. Mr Princz and his entire board were fired in the summer by the new Fidesz-led government.

The present management is trying to disentangle the web of Postabank's 500 subsidiaries to determine the exact losses, prior to recapitalising the bank before the end of the year to prepare it for sale.

Significant investment in information technology coupled with increased competition – with about 40 banks margins on loans have been trimmed from an average of 7 per cent to 5 per cent in the past year – means that the positive impact of the new management regimes are not always clear from the financial results.

Total after-tax profits of the sector have jumped from a meagre Ft12.3bn in 1994 to Ft 64.5bn last year, a 200 per cent gain in dollar terms, while the return on assets has climbed from 0.5 per cent to more than 1 per cent in the same period.

Meanwhile, the proportion of doubtful loans as a percentage of assets has fallen from a dangerous 20 per cent in 1993 to 3.2 per cent last year.

MKB, the foreign trade bank, was the first large bank to be privatised in 1994 and has achieved one of the best turnarounds.

Bayerische Landesbank, the majority owner, has seen income tripled, the outlet network doubled from 12 to 25 and staff pruned from 1,800 to 1,240.

MKB has become Hungary's second largest bank with assets last year of Ft457bn and profits up from Ft4.9bn in 1994 to Ft11.9bn in 1997.

By concentrating on corporate lending and targeting blue chip companies, MKB has avoided heavy expenditure in its branch network but has tripled its share of the loan market to 12 per cent.

"We want to be the most important wholesale bank in Hungary, not another OTP (the leading retail bank)," says Tamas Erdei, chief executive, referring to the National Savings Bank.

None the less, MKB is happy to target the higher-income end of the retail market, being one of the first to introduce Visa cards, in 1996.

Five years ago, Citibank, CIB and Unicbank were the 'McDonald's' in banking

In spite of these efforts profits are likely to be pegged back this year, due to provisions for $81m exposure in Russia.

The rise of the former state-owned banks, along with additional foreign newcomers, has had its effect on the smaller banks which once had the corporate market almost to themselves.

"Five years ago, Citibank, CIB and Unicbank were the 'McDonald's' in banking, offering the same standard product, same principles everywhere – and they were almost exclusive partners to the multinationals," says Julia Kiraly, director of the International Training Centre for Bankers in Budapest.

The likes of MKB and ABN Amro (which bought Magyar Hitel Bank in 1996), along with foreign banks, such as ING and Creditanstalt, are now cutting into the market, she says.

"Many of the blue chips are now in 'multi-banking'. They use two or three banks in parallel and choose the best offer," says Ms Kiraly.

None the less, there is still some way to go. Raiffeisen Unicbank, for example, while only eighth in terms of assets, managed a return on assets of 3.93 per cent in 1997, closely followed by CIB Bank, with 3.89 per cent. This compares with returns of 2.28 per cent at MKB and only 1.34 at OTP.

But with the economy continuing to expand, there should be room for improved profitability.

"Loans increased 20-23 per cent last year and the winners were the banks in syndicated lending," says Ms Kiraly. Due to the strength of its capital base, this has given an opportunity to OTP to diversify away from its retail base and gain a foothold in corporate banking.

At the same time, most of the banks are developing retail operations in competition with OTP but have been struggling to make profitable headway, with several facing severe problems with the introduction of new IT systems, according to Ms Kiraly.

The retail market is also limited. "In terms of total bank assets to GDP, Hungary is underbanked but look at the number of banks versus total income and we are overbanked."

Ms Kiraly also says that mergers are needed but quite how they will be realised, with most of the banks foreign-owned, is another matter. "Will the top manager of ING of the Netherlands sit down with Erste Bank of Austria and say: 'Let's merge our Hungarian operations'?"

The chances seem slim.

WELFARE by Kester Eddy

Victim of its success

State mandated private pensions have proved so popular the government has been forced to cap contributions

When Hungary launched its reformed pensions system in January, people voted with their wallets.

"Our target was 75,000 members for the year," says Emese Moricz, marketing manager at Nationale Nederlanden (NN). "We had 100,000 by the end of January. We were very happy."

So were quite a few other fund managers. The mandatory private funds have now attracted 1.2m members, representing more than one third of the workforce, and manage assets of more than Ft17bn ($80m).

NN leads the way with Ft4bn in managed assets from 257,000 members. This is in addition to the voluntary pension funds, introduced in 1994, which have rung up a Ft75bn in assets from 810,000 members.

So, the first steps in the reform of two problem areas of Hungary's public sector, pensions and health, appear to be going well.

The two state funds, which this year have combined turnover of Ft1,400bn ($6.5bn) habitually leak cash. They are expected to overrun their target deficit of Ft22bn by a factor of four.

In its first act, the Fidesz-led government took control of both operations this summer, accusing the managing councils of corruption.

But the rush to the private schemes has aggravated the deficit in the state fund and some in government, staring at a hole in the state pension fund much bigger than forecast, are not so happy.

For every employee who opts to join the private scheme, 6 per cent of gross salary – about a quarter of the total pension contribution – is diverted from the state fund into the chosen private fund.

The new government was also desperate to fulfil election promises to cut the overall social security contributions in the drive to encourage employment.

In November the government compromised. The twin effects of the revenue loss to private pensions and reducing overall social security contributions next year from 45 per cent to 39 per cent of wages proved too much.

Facing a Ft81bn deficit next year in the state fund due to private pensions, the government announced that personal contributions in 1999 to the private funds would be pegged at 6 per cent of salary and would not rise to 7 per cent, as originally stipulated.

Fund managers were furious. Not only would the move cause long-term losses to pensions but the uncertainty created might encourage some members to return to the state system, an option open until September.

"I don't know how to emphasise how stupid this is. They have changed a system meant to be stable for decades," one manager says.

Whatever the wisdom of the tinkering, the system is in place. The Hungarian government, facing the threat of an ageing workforce – the population is decreasing by about 45,000 a year – will not substantially alter the reforms, even those carried out by its predecessor.

Hungary is "in the vanguard" of European pension reform, says Roger Grawe, World Bank representative in Budapest. Though the system needs "fine tuning" – tighter supervision of the funds, for example – the structure is here to stay.

Which leaves health, a fund with a budget of Ft600bn, heading for a Ft50bn deficit this year, more than double the target. Yet health care staff are so badly paid patients commonly hand over brown envelopes to gain proper access to the "free" treatment.

A report by ING Barings puts Hungarian drug consumption, in dosage terms, on a par with Norway's. The subsidy system for medicines, running at Ft120bn this year, is "irrational," says finance minister Zsigmond Jarai. "People get free medicine and then sell it. Doctors spend more and nobody stops them."

The government plans checks, balances and inducements to spend less, he says. As a start, next year will see a Ft123bn cap on medicine subsidies and strict monthly transfers of funds from the finance ministry in an effort to control spending.

But health reform is a "most complicated process", says Mr Grawe. Stakeholders range from the pharmaceutical giants via the night nurse to hospital maintenance companies.

The previous government dropped reforms after the parties now in power gleefully used them to make political capital at its expense. New reforms could likewise cost Fidesz dearly.

But following the World Bank line – of supporting structural reforms that give the tax-paying public choice over the service providers – could work politically.

Mr Grawe says the bank, which has already dispersed loans of $30m to identify and prioritise health needs, would be a willing supporter of reforms where "those who don't deliver, get cut out".

It would certainly beat brown paper envelopes.

POLITICS by Kevin Done

More power to him

Moves to boost the office of prime minister may bring conflict for the government

The group of radical young lawyers that founded Fidesz, the Federation of Young Democrats, at the end of the 1980s, have had to wait nearly a decade to get their hands on the levers of power in Hungary. But, given the chance in last summer's election, they are moving fast to reform the machinery of government inherited from the Socialists, starting at the top.

Prime minister Viktor Orban has changed the government structure with the introduction of a much more powerful Prime Minister's Office (PMO) run by a minister of cabinet rank, his former university law lecturer, Istvan Stumpf.

As director of Szazadveg, the Budapest School of Politics and Policy Research, Mr Stumpf had been running a project for the renamed Fidesz-Hungarian Civic Party in opposition called Government 2000, analysing the structure of the administration and making recommendations for reform. The surprisingly clear victory won by Fidesz in May, when it overtook the Socialists to become the biggest single party, increasing its seats to 148 from only 20 four years earlier, has given him the chance to put his ideas into practice.

At the top of the pyramid Viktor Orban believes that the role of prime minister should be greatly strengthened.

"The Hungarian prime minister is still weaker than the British prime minister or the German Chancellor," he says. "My predecessors failed to reinforce the prime minister's office." He is making up for lost time and, in the process, is changing the face of Hungarian politics, as government becomes more concentrated in the hands of one man and potentially undermines the authority of ministerial colleagues.

Mr Orban says that his predecessor, the former Socialist leader Gyula Horn, had wanted to make similar moves but had been blocked by his liberal coalition partners, the Free Democrats. By contrast, he claims the full support of his coalition allies, the Smallholders party, led by 66-year-old Jozsef Torgyan, an outspoken populist and nationalist.

"The prime minister is the motor of the government, he is not just holding the ring between the various ministries but is the initiator. My idea is to be an active prime minister."

Mr Orban says that he is aiming to reform the whole state bureaucracy. "It is difficult to attract well-trained, well-educated people into the civil service, it is not competitive. I must create a better status. At the moment we have a Socialist form of civil service. No ministry can launch this initiative, it must come from the prime minister."

The much strengthened PMO could contain the seeds for serious conflict with the different ministries when it begins to flex its muscles. Mr Stumpf has created five departments to shadow the work of the individual ministries covering finance and economic affairs, agriculture, environment and infrastructure, home affairs and justice, social policy and international affairs and defence.

"Our most important responsibility is to provide the organisation and intellectual support for the prime minister for the overall strategy of the government. Beyond special ministerial and lobby interests, we must represent the national interest," says Mr Stumpf.

Inevitably the new government has come in for heavy criticism for perpetuating the politicisation of the civil service through implementing wholesale job changes in senior levels but it is a charge Mr Stumpf rejects. He says that no more than 150 positions have changed in the higher echelons of the government service. "Four years ago there was a suggestion that the incoming Horn government had changed more than 2,000 positions in state-owned enterprises, we had changed 250 by the end of October."

Further enhancing the role of the PMO Mr Orban and Mr Stumpf have created a 30-member think-tank to analyse the consequences of planned policy changes as well as the impact on Hungary of changes in the external environment, such as the financial and economic upheaval in Russia. Most importantly, the unit is working on the "overall philosophy" that will shape the budget for 2000, the first to be prepared fully under a Fidesz-led administration.

Other secretariats within the PMO are preparing plans for regional government reform – an important step required by Hungary entering the EU in the next decade – and are also drawing up proposals for electoral reform aimed at reducing the number of members of parliament from the present 386 to between 200 and 250.

The job of trying to ensure that the government stays "on message" in communicating its policies has also been centralised in a newly created strategic communications and media centre within the PMO. Fidesz's slick media campaign in the election showed the benefits of well co-ordinated communications and Mr Orban is seeking to extend the lessons into the much more complex task of presenting government policy.

It could prove a hard road. Already in the early months of government the Orban administration is facing charges of arrogance and of failing to consult and it appears set on confrontation with a growing number of groups across society from the city of Budapest – over its unilateral decision to scrap the project for a new metro line in the capital – with the arts community over halting the building of a new National Theatre, with social services groups over tough new anti-drugs measures and with the judiciary over legal reforms announced without prior consultation.

DEFENCE POLICY by Robert Wright

A new security blanket

Accession to Nato will confirm that traditional threats have melted away

Janos Szabo, Hungary's new minister of defence, is precise about how long ago Hungary was last so safe from external attack.

The country is, he says, more secure than at any time since 1526, when the Hungarians lost the battle of Mohacs and much of the country fell to the Turks.

So it is hardly surprising that Mr Szabo is pressing ahead enthusiastically with preparations to join the North Atlantic Treaty Organisation, the strongest available guarantee against a return to Hungary's traditional military vulnerability.

"During our thousand-year history we have had to defend ourselves many times, not always successfully," Mr Szabo says. "Our military is a defence military but, on its own, it is not enough. This is why we are going to join Nato."

Hungary, Poland and the Czech Republic are due to join the alliance next spring, possibly on April 4, 50 years to the day after the Washington treaty signing which inaugurated Nato.

It is a remarkable turnround for three countries which just 10 years ago were still, as part of the Warsaw Pact, training to face Nato.

The organisational changes facing the Hungarian defence forces with the coming accession are just as dramatic. Having supported a standing army of 150,000 during the Warsaw Pact years, including conscripts serving for two years, the Hungarian military has now shrunk to 53,550. Conscripts now serve nine months, which may fall to six, and their numbers have fallen to 40 per cent of the total.

The changes reflect the vastly different approaches of the old Soviet alliance and the Western one.

General Ferenc Végh, chief of staff of the Hungarian armed forces, says: "Mass use [of force] was the philosophy of the Warsaw Pact. Nato has quality. The Warsaw Pact had quantity. Quality is really the solution because with quality you can get less injury and less death on the battlefield and you can fulfil the task more efficiently."

But, surprisingly, despite the modern emphasis on high-technology weapons, General Végh has not made renewal of his force's Soviet-designed aircraft and tanks a high priority.

The equipment, much of it 25 to 30 years old, can be brought up to Nato standards with minor modifications, such as night vision capabilities or new targeting equipment. Instead, the emphasis has been on what Gen Végh calls "intellectual compatibility".

"First we need well-developed, well-trained soldiers and officers and only then should we change the military equipment," he says.

Reaching intellectual compatibility has meant giving widespread English language training – the air force now conducts in-flight operations in English – and there has been new tactical training. The new approach plays up the role of non-commissioned officers who, in the Warsaw Pact, had little scope for initiative.

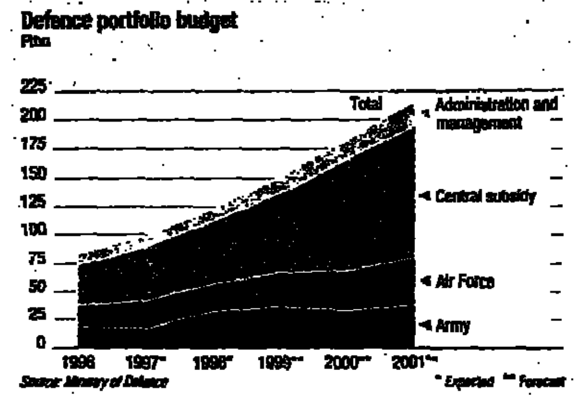
NCOs are encouraged to think tactically for themselves within parameters set by their commanders. The US will this year provide $15.8m for this training under its Warsaw initiative.

The training progresses in tandem with the purchase of the communications equipment needed to make the new strategy work. This has included a new air sovereignty operations centre which has complete control of the air over the country.

The Hungarians are also likely to receive some Nato funding towards the purchase of an integrated air defence system, with two or three large fixed radars. The project is likely to cost between $60m and $100m.

There are already relatively minor procurement programmes, such as replacing the defence force's 17,000 non-combat vehicles, the order for which will probably go to a Hungarian vehicle maker, such as Raba.

Defence portfolio budget
Ftbn



Source: Ministry of Defence
* Expected ** Forecast

Further down the line, the air force will need to replace its ageing Mig-21 fighters with around 30 more modern aircraft, such as Saab's Gripen, Dassault's Mirage 2000, Lockheed Martin's F16 CD or Boeing's FA18.

Gen Végh is unsure how the Ft400bn ($1.84bn) bill for new fighters will be met, despite the commitment, as part of Nato accession, to raise defence spending by 0.1 per cent of GDP a year until 2001, when it will reach 1.8 per cent.

That will take the budget from Ft123bn ($565m) this year to around Ft216bn ($994m) in 2001.

Gen Végh stresses the potential new threats to the country from international crime and environmental damage. However, in other respects the military's effectiveness seems to be growing just as traditional threats melt away.

With ethnic Hungarian parties now governing coalition partners in both Romania and Slovakia and with bilateral defence treaties in place with both countries the likelihood of a flare-up over the 3m Hungarians outside the country seems small.

It also intends to reinforce the improved relations by pressing for the admission of Slovakia and Romania to Nato.

The only serious traditional threat is on Hungary's southern flank where, at the height of the crisis between Nato and the Yugoslav government over Kosovo, ethnic Hungarian leaders in Serbia's northern Vojvodina province, fearing reprisals, asked Hungary to prevent Nato access to its airspace for air strikes.

The Hungarian parliament voted to allow free use of the airspace, although Janos Martonyi, foreign minister, concedes a guarantee was obtained that Hungarian bases would not be used in the first wave of attacks against Kosovo.

In fact, the country's main military significance may be its geography. One Western diplomat points out that armies invading central Europe from the east normally pass through Hungary.

It also borders former Yugoslavia and US troops have used Taszar as a forward base for their operations in Bosnia-Hercegovina. The western diplomat expects Hungary to play a vital role in Nato's southern command, with the country's many fresh ideas likely to give it a significance beyond its size.

But, as in any modern democracy, the Hungarian military is conscious that it is no longer the key determinant of the country's strength.

Gen Végh is candid: "The improved democratic system and the improved market economy, these are the first priority. If you have a working market economy with potential for growth, only then can you spend more money on the military."

PROFILE
VICTOR ORBAN

Centre forward

Viktor Orban is finding it hard to balance the demands of being Prime Minister with his football career.

Winning the general election, negotiating a government programme with coalition partners and coping with the impact of collapsing financial markets played havoc with his training during the summer.

Deep into a mid-winter afternoon and tired by an early morning training stint and several hours work, he suggests an impromptu beer at a cafe across the road from his office in Hungary's neo-gothic parliament building. He wants to bring politics and politicians closer to the people.

"People are surprised when they see their politicians playing football or having a beer. Living in the prime minister's residence is like living in an Indian reservation. You are separated from normal life."

Despite the burdens of office he tries to attend the three training sessions a week for his team, Erdert, in Hungary's fourth division. Fittingly, the man who master-minded the ousting of the Socialists from office in the general election this year, likes to play as the right-sided or centre forward.

At 35 he has made it to the top of Hungarian politics in only 10 years. He became an MP in 1990, when he abandoned his studies at Oxford University – he had a scholarship funded by George Soros, the Hungarian-born financier – to enter the fray of the country's first free elections.

Two years before he became a founding member of Hungary's first opposition group, Fidesz, the Federation of Young Democrats. Mr Orban began his rise to national prominence when he demanded publicly that Soviet troops should leave Hungary in a speech at the reburial of Imre Nagy, Hungarian leader in the 1956 uprising.

He laid the foundation for his political career earlier during the 1980s, however, at a special institution founded at the law faculty of Budapest's Lorand Eotvos University, which has had a profound impact on politics in Hungary. As a young undergraduate he helped to found the Bibo Istvan Professional Law College inside the faculty which brought together a group of radical, opposition-minded students and law lecturers.

The close-knit group provides the nucleus of Mr Orban's government. Istvan Stumpf, the first director of the college, and one of Mr Orban's teachers, is the Cabinet minister in charge of the Prime Minister's Office. Other allies include the speaker of parliament and the leader of the Fidesz parliamentary group.

"After the war in Afghanistan we knew we had to be prepared. The feeling that we were at a threshold of change was clear. It was a question of how to contribute to the change from socialism to a free society. We prepared for the transition. The question now is are we prepared for government?"

Kevin Done

AUTOMOTIVE INDUSTRY by Kevin Done

Accelerating away

The country is proving fertile ground for leading car producers

The flexibility of the workforce is allowing General Motors to experiment at its plant at Szentgotthard in western Hungary with working methods that would be impossible to implement at the US group's plants elsewhere in the world.

"Hungarian labour relations are something special and are one of our key strengths," says Rudolf Hadorn, finance director of Opel Hungary, GM's local subsidiary.

GM is trying out new shift patterns at its engine plant with the introduction of a fourth shift. "We are aiming to work seven days a week, 24 hours a day," says Mr Hadorn. The new system would virtually do away with over-time and the capacity of the plant could be raised from 460,000 engines a year to 540,000 without extra investment.

"We are trying this in Hungary because it needs flexibility and willingness from the workforce," says Mr Hadorn.

Starting from a greenfield site in 1992, Opel's operation in Hungary has become one of GM's three biggest engine manufacturing locations in Europe. This year, the group announced that it was planning to expand further with the investment of an additional DM230m to build a 250,000-a-year transmission plant scheduled to start production in 2001. Total investment at the site will then reach DM920m.

Hungary has proved fertile ground for some of the world's leading vehicle makers. Three of the top 10 Hungarian manufacturers and exporters are international automotive groups which have built their operations in the country from scratch in the past decade.

Audi, the executive car division of Volkswagen, Europe's biggest carmaker, has developed its worldwide engine production site at a greenfield site in Győr in north-west Hungary. Audi has also begun small volume car assembly in Győr, again to take advantage of flexible labour conditions.

Suzuki of Japan has built its only car plant in Europe at Esztergom beside the Danube in northern Hungary and has succeeded in capturing close to a quarter of the domestic new car market.

This is a significant benefit as Hungary is one of the fastest growing new car markets in Europe, buoyed by the economic recovery, with sales expected to rise by about 30 per cent to a record level of more than 100,000 from 79,830 last year. In the first nine months, Suzuki was market leader with a share of 22.9 per cent followed by GM's Opel brand, with 16 per cent, and the VW group, with its four brands, with 15.2 per cent.

Magyar Suzuki expects to produce 66,000 cars this year, of which 43,000 are destined for export. Since starting production in 1992, it has invested $200m at the Esztergom plant, which has a workforce of 1,400.

It has not been easy to develop a domestic supply base but 55 per cent of the value of Hungary-assembled cars is now produced locally. This gives Suzuki a formidable price advantage against more expensive imports from west Europe and lies behind its aggressive gains in a market which is very price-sensitive.

The Japanese carmaker is expanding with plans for a model to add to its ageing Swift range. The investment of Ft32bn ($145m) will increase capacity to 100,000 cars a year, including 40,000 of the new small car.

The three automotive operations in Hungary, and the GM and Audi plants in particular, are geared towards exports. Both engine factories export virtually 100 per cent of their production to the parent groups' assembly plants elsewhere in Europe.

Vehicle makers were drawn to Hungary in the early 1990s by three factors – a skilled, low-cost workforce, the logistical advantages of western Hungary sites close to the motorway and rail networks of western Europe, and a series of financial incentives, such as 10-year exemptions from paying profit tax and the freedom to operate from customs-free zones inside Hungary.

Their rapid expansion is born of the positive experience of the early years.

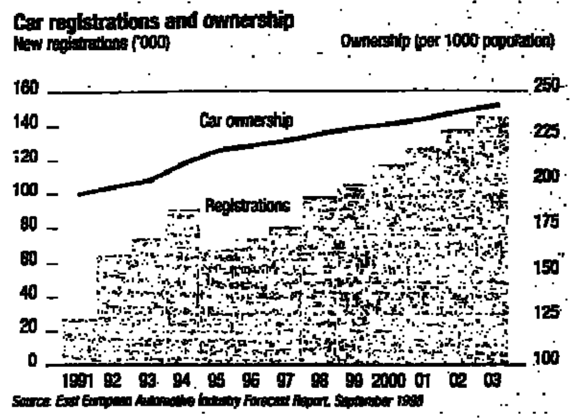
Audi investigated 180 potential sites in Europe in 1991-92 before selecting Győr. The operation has grown quickly since production began in 1994 and the factory expects to produce 1m engines this year for Audi and the group's Volkswagen, Skoda and Seat brands. It will have invested about DM840m at Győr by the end of 1999.

The workforce has grown from the original 200 selected from more than 3,000 applicants in 1994 to 3,400 by the end of this year.

Audi added specialist car assembly to the Győr operation in May with the start of production of its TT coupés and roadsters. Only the labour intensive final assembly takes place in Győr, with 30,000 cars due for production next year.

Audi says that assembly costs are significantly lower than in Germany, where labour costs are about five times higher. Flexible labour contracts mean it can cope with seasonal fluctuations in demand and it can also take advantage of the profit tax exemption until 2004.

Car registrations and ownership



Source: East European Automotive Industry Forecast Report, September 1998

PHARMACEUTICALS by Robert Wright

Russia's bitter pill

The industry is changing its formula to resist the contagion

The line of heavy, riveted vessels which process chemical byproducts at the main factory of Egis, the pharmaceutical maker, does not look as if it belongs in a modern pharmaceutical factory. But this ageing – some of which dates back to before the second world war – is less than half the story with Egis – and with Hungarian pharamceutical producers.

In another district of Budapest, Egis has built a high-technology building for research and development where it hopes to discover patentable and new generic products. Bulk chemicals and the existing generic products, such as those produced at the older factory, are funding the work at the new site.

Egis and some other Hungarian pharmaceutical companies press ahead with R&D because, with Hungary's relatively low wage rates for researchers, Egis can carry on research more cheaply than westerners.

Both Egis, Hungary's second biggest domestic quoted pharmaceuticals producer by sales, and Gedeon Richter, the largest by the same measure, are products of Hungary's peculiar economic history.

Born of Hungary's strong tradition of scientific expertise, both companies were founded before the first world war and nationalised by the communists. In the Soviet Comecon trade system, Hungarian producers were the main pharmaceutical suppliers to the Soviet bloc. They jointly marketed their products in the Soviet Union under the brand name Medimpex.

Egis and Richter were privatised in the mid-1990s. The Hungarian state still holds a 25 per cent stake in Richter – partly through the state health insurance fund – but the company is the only remaining fully independent Hungarian pharmaceuticals maker. Servier, France's largest private pharmaceuticals company by sales, bought a 51 per cent stake in Egis.

Until earlier this year, Egis and Richter's commanding position in Russia and other former Soviet states looked an asset. But, since the August devaluation of the rouble, both companies have been facing acute problems as the supply of dollars to pay for drugs has dried up.

Both Richter and Egis increased their reliance on the Commonwealth of Independent States during 1997. Richter sold Ft17.9bn ($96.2m) to the region during 1997 – 34.5 per cent of its Ft52bn total sales – while Egis sold Ft4.41bn to the region last year, 15 per cent of net sales of Ft29.2bn. Richter increased its sales to the CIS by 36 per cent last year, while Egis' went up by 32.6 per cent.

The CIS sales cushioned the producers against erosion of market share in the domestic market. In 1990, 73.7 per cent by value of pharmaceuticals sold in Hungary were manufactured by Hungarian producers. In the first half of the present year the figure was 39.1 per cent by value. However, much of the fall is a result of increased prices charged by western producers – Hungarian manufacturers' market share by volume of drugs sold has dropped from 83 per cent in 1990 to 69 per cent.

Richter has the largest market share of the Hungarian drugs market, with 10.2 per cent, while Egis has 9.2 per cent.

The collapse of the Russian market is likely to have a dramatic effect. Richter announced an Ft1.06bn provision to cover possible non-receipt of debts in Russia with its third quarter results, while Egis took a Ft637m charge, which analysts expect not to be fully required. At the nine-month stage, Richter's pre-tax profits were still marginally ahead of last year at Ft12bn, while Egis' pre-tax figures were down 11.8 per cent to Ft4.04bn at the same stage.

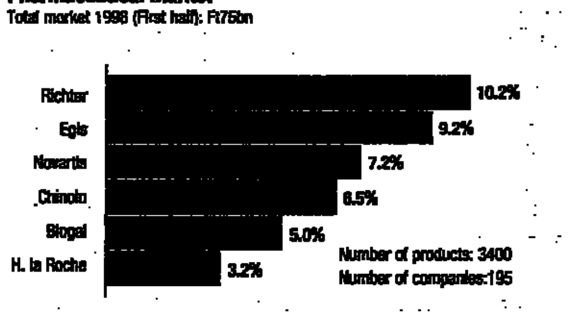
"We believe a market of 150m people for pharmaceuticals will remain," says Erik Bogsch, managing director of Richter. "There is no question that, in the coming year or two, consumption is going to fall but we feel that we can manage the situation at a lower level."

Both companies have tackled the other problem concerning analysts, their reliance on products produced under "process patents". None of Egis' products is protected by product patents in western countries and, while Richter still produces some drugs protected by western product patents they are not a significant contributor to sales.

Research into entirely new products is likely to take a long time to come to fruition – and help will be required from western partners.

The strongest areas for product development may be lincensing and the so-called "branded generics" – generic drugs which have developed unusally strong brand loyalty in eastern European markets.

Pharmaceutical market
Total market 1998 (First half): Ft75bn



Source: Egis

CULTURE by Kevin Done

Menu promises a special vintage

1999 is the year of gastronomy in Hungary and, with foreign investment flooding in, the country has much to offer

Vintner of content: Hungary's famous sweet wines will be to the fore Kester Eddy

The richness of the goose liver pate is surprisingly well served by the sweetness of the accompanying 1996 Muscat Lunel from Gundel's winery in Tokaj. A 1997 Chardonnay from the Eger region brings out the flavour of pike-perch from Lake Balaton, served on a bed of spinach with a white wine sauce made from the native Harslevelu grape from Tokaj.

A mellow 1995 Egri Merlot embellishes the medallions of venison with sour cherry compote, while the climax of a dinner at Budapest's Gundel restaurant, one of the great eating experiences of Europe, comes with the sweet dessert Tokaji Aszu, served to savour slowly beside the Crêpe Sisi.

Next year is to be the year of wine and gastronomy in Hungary. And there are few better places to begin than Gundel's, as the country sets out to demonstrate that alongside other economic advances, its noble heritage of wine-making and culinary skills has survived the depradations of the communist era.

More than in any other country of former communist east Europe, foreign direct investment has acted as the catalyst for change in Hungary and wine-making, gastronomy and tourism are no exceptions.

Gundel's, founded in 1894 in a stylish fin-de-siécle villa in the City Park was nationalised in 1949. It has been restored to its former glories as Budapest's most elegant restaurant, following the intervention by George Lang and Ronald Lauder in the early 1990s.

Mr Lang, Hungarian born and educated, a leading restaurant consultant who ran New York's Four Seasons restaurant in the 1960s, is the owner of Café des Artistes, one of New York's finest restaurants. Lauder, one of the heirs to the Estée Lauder cosmetics fortune whose family roots lie in the Austro-Hungarian empire, is a former US ambassador to Vienna, who has developed a series of business interests in central Europe, including playing a pioneering role in the development of privately-owned commercial television in the region.

Kalman Kalla, the pre-eminent Hungarian chef, directs the work of 50 cooks at the restaurant, where Gundel says that it is combining the traditions of the past with modern trends.

It is also among a growing group of foreign investors that are seeking to restore the fortunes of Hungary's most famous wine region, Tokaj-Hegyalja, in the north-east of the country close to the borders with Slovakia and Ukraine.

Foreign investment in the wine industry has been concentrated in this region best known for the amber-coloured sweet dessert wines that first gained fame in Europe in the late 17th century and won praise from Louis XIV as the "wine of kings and the king of wines".

Traditions suffered during the communist era but foreign investors from Germany, the US, Spain, the UK and France ranging from AXA, the French insurance group, to the German-Hungarian family of the counts of Degenfeld who have acquired vineyards and cellars close to their ancestral lands, believe that the region's reputation and image in western markets has survived.

In the vineyards that cover the south-facing slopes of the Zemplen hills, the winemakers are convinced of the quality of their product but say that they still face an uphill marketing battle.

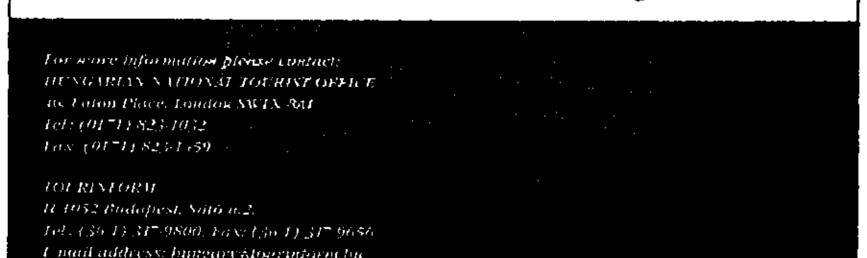
"For 40 years, Tokaj wines were sold mainly in the domestic market and to Russia, in barter deals, wine for aluminium, and in large volumes of dry and semi-sweet wines," says Dominique Arangoits, general manager of the recently-built Disznókő winery, in which AXA has invested about $10m. "The name was still famous, even if it had not been in the market for 40 years, but now we have to rebuild that market for Tokaj wines. That is the biggest problem," she says.

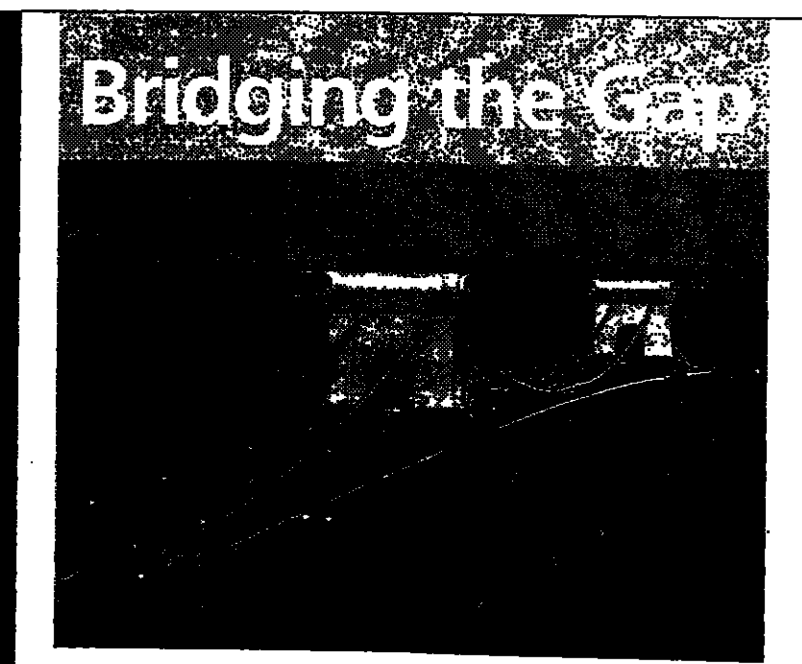
It is a long-term investment. Production of the Tokaj Aszu dessert wines is a delicate business, requiring, most importantly, the development of noble rot (botrytis cinerea) late in the season, which shrivels the grapes and concentrates the sugar. The so-called Aszu berries are painstakingly picked by hand.

The Aszu wines are matured in oak barrels or casks for at least three years, sometimes much longer, in the labyrinth of mould-covered cellars running beneath the Tokaj villages. They are graded by the number of 'puttonyos' or hods (1 hod = 20 kilograms) of botrysised berries, ranging from 3 to 6 puttonyos, that have been added per cask (136 litres) of wine.

Many of the vineyards in Tokaj and elsewhere are still in the hands of small private growers and the arrival of the foreign investors has inevitably caused controversy and some resentment.

Local leaders accept, however, that increased outside capital is needed, if the region is to prosper and make its presence felt in foreign markets.





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